Cash is the spur
French asset sales transcend ideology
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EC haulage policy
Who wins and loses on the open road
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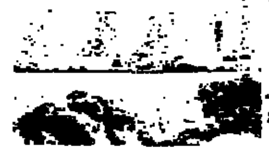
Tripped by paperwork
The supergun affair's legacy of red tape
The growing business, Page 10



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Trembling giants forced to compete
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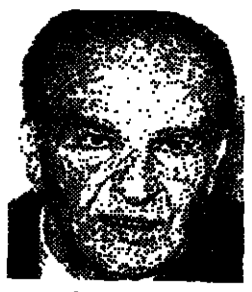
FINANCIAL TIMES

Europe's Business Newspaper — TUESDAY JUNE 22 1993 — D8523A

Bosnia leader pressed on latest peace proposals



Bosnian president Alija Izetbegovic (left) is under pressure from the European Community and from other members of the joint Bosnian presidency to adopt a less hostile attitude to the latest proposals for Bosnia's future political framework. Bosnia's collective presidency, which includes Serbs and Croats as well as Moslems, was reported to have postponed scheduled talks in Zagreb with Izetbegovic as signs of a split emerged which could threaten his position as leader.

Meanwhile, Izetbegovic's appeal to the European Community to lift the arms embargo against his country received little encouragement. Page 2

Hopes grow for German rate cuts: The rate of growth in German money supply slowed in May, encouraging hopes that the Bundesbank may shortly resume its cautious programme of interest rate cuts. Page 2

Pechiney, the French state-controlled aluminium and packaging group which is a candidate for privatisation, may have to wait for an improvement in the metals market before it can be sold. Page 23; Deficit, not ideology, drives French sell-off, Page 4

Call for German law on takeovers: Rolf Breuer, the board director responsible for Deutsche Bank's securities activities and chairman of the German stock exchange, called for a law to regulate takeovers and mergers in Germany. Page 23

British Steel attacked state subsidies for its Spanish and Italian rivals and urged the European Commission to press ahead with restructuring plans, as the company reported an annual pre-tax loss of £149m ($223m). Page 23; Lex, Page 22

Hungary upset by EC dumping: Unfair dumping of western grain and meat in Russia and the Ukraine is said to be crowding out exports from Hungary, Poland, Romania and Bulgaria. Page 6

Chinese in Gulf trade tour: Li Lanqing, a Chinese vice-premier, has begun a tour of the Gulf region at the head of a delegation aimed at cementing trade ties that last year were worth more than $2bn. Page 6

Bradford & Bingley, the seventh largest British building society, is seeking to become the first non-German institution to establish a German building society. Page 24

Islamic bank $41m donations: The Islamic Development Bank agreed to finance $40m in foreign trade credits for Pakistan and Morocco and to donate $1m to Somalia for educational needs.

Scharping to challenge Kohl: German opposition leader Rudolf Scharping said he would challenge Chancellor Helmut Kohl in elections next year after his last rival in the Social Democratic party pulled out of the race.

Israel coalition under threat: A corruption scandal in the Israeli cabinet threatens the country's fragile ruling coalition and could harm the peace talks with Palestinians and the country's Arab neighbours. Page 4

Zinc producers discuss cuts: Desperate European zinc producers are hoping to implement a co-ordinated industry scheme where one or two of them will permanently close smelting capacity and the rest of the EC industry will provide cash to cover the closure costs. Page 32

US policy on Haiti refugees upheld: The US Supreme Court upheld the policy of successive US administrations authorising the forcible return of would-be refugees from Haiti intercepted on the high seas. Page 6

Imports revive EC worries over deficit: Import volumes from countries outside the European Community rose sharply at an underlying level last month, reviving worries that the trade deficit might worsen in the later stages of a recovery. Page 9

Shuttle launches: The US space shuttle Endeavour blasted off from Florida on a mission to retrieve a European science satellite and conduct experiments in a privately owned cargo bay on its maiden flight.

■ STOCK MARKET INDICES		
FT-SE 100:	2903.4	(+24.0)
Yield	3.95	
FT-SE Eurotrack 100	1183.31	(+6.59)
FT-A All-Share	1431.39	(+0.6%)
Nikkei	19,212.43	(-592.11)
New York lunchtime		
Dow Jones Ind Ave	3497.26	(+2.49)
S&P Composite	445.02	(+1.34)
■ US LUNCHTIME RATES		
Federal Funds:	$3\frac{1}{16}$%	
3-mo Treas Bills: Yld	3.115%	
Long Bond	$104\frac{5}{8}$	
Yield	6.758%	
■ LONDON MONEY		
3-mo Interbank	$5\frac{7}{8}$%	(same)
Liffe long gilt future:	Jun $107\frac{1}{8}$	(Jun $106\frac{9}{32}$)
■ NORTH SEA OIL (Argus)		
Brent 15-day (Aug)	$17.56	(17.45)
■ Gold		
New York Comex (Aug)	$371.1	(372.5)
London	$369.5	(372.25)

■ STERLING		
New York lunchtime:		
$	1.489	
London:		
$	1.4875	(1.496)
DM	2.5125	(same)
FFr	8.4425	(8.445)
SFr	2.235	(2.245)
Y	165.25	(163.5)
£ Index	79.8	(79.9)
■ DOLLAR		
New York lunchtime:		
DM	1.69	
FFr	5.678	
SFr	1.503	
Y	110.95	
London:		
DM	1.689	(1.68)
FFr	5.675	(5.645)
SFr	1.502	(1.5005)
Y	111.1	(109.3)
$ Index	65.6	(65.3)
Tokyo close Y 110.48		

Austria	Sch30	Germany	DM3.30	Lux	LFr60	Qatar	QR12.00		
Bahrain	Din1.250	Greece	Dr300	Malta	Lm0.60	S.Arabia	SR11		
Belgium	BFr60	Hungary	Ft172	Morocco	MDh13	Singapore	S$4.10		
Bulgaria	Lw25.00	Iceland	IKr180	Neth	Fl 3.75	Slovak Rp	KSL45		
Croatia	HRD5700	India	Rs40	Nigeria	Naira45	Slovenia	SLT220		
Cyprus	C£1.00	Israel	Shk5.90	Norway	NKr16.00	Spain	Pta200		
Czech Rp	Kcs45	Italy	L2700	Oman	OR1.50	Sweden	SKr15		
Denmark	DKr15	Jordan	JD1.50	Pakistan	Rs35	Switz	SFr3.20		
Egypt	E£4.50	Korea	Won 2500	Philippines	Pso45	Syria	S£50.00		
Finland	FM12	Kuwait	Fils.800	Poland	Zl 22,000	Tunisia	Din1.250		
France	FFr9.00	Lebanon	US$1.25	Portugal	Es215	Turkey	L7000	UAE	Dh11.00

Leaders in Copenhagen disagree on deregulation of labour markets

EC wants new plan for jobs

By Lionel Barber, David Gardner and Philip Stephens in Copenhagen

EUROPEAN Community leaders last night drafted a broad strategy for dealing with the unemployment crisis in the EC, providing a mandate for Mr Jacques Delors to produce an action plan by the end of the year.

But at a summit in Copenhagen dominated by the worsening economic outlook and a widespread feeling that high German interest rates are prolonging the recession, EC leaders could do little to disguise their differences on how to revive growth and employment.

Mr John Major, the UK prime minister, called for a fundamental rethink of the Community's approach to job creation, stressing the need for more liberalised labour markets, lower social costs for business and tighter constraints on wage increases.

Warning that Europe's competitiveness had been dangerously eroded, Mr Major repeated his view that the social chapter in the Maastricht treaty would amount to a "job destruction programme". He said: "Our total labour costs are too high. Our employment markets are too rigid. And our labour force is not adaptable and mobile".

Mr Delors, president of the European Commission, conceded that Europe had fallen far behind the US and Japan in its ability to create jobs. But he rejected moves to dismantle Europe's social welfare system in favour of a more deregulated labour market along US lines.

Mr Niels Helvig Petersen, foreign minister of Denmark which holds the EC presidency until the end of June, said the US model produced "very severe defects in the economy", as well as social problems, crime and hopelessness in large urban areas."

Page 2

- Commitment to eastwards expansion expected
- Delors makes a hit by aiming lower
- UK warning on rising labour costs
- Interest grows in stability pact plan

But Mr Felipe González, Spain's Socialist prime minister, who just narrowly secured re-election against strong conservative opposition, came out in favour of deregulation of labour markets. "The recession is colliding with great rigidity in the labour market; we have to get greater labour mobility," he said, calling for more opportunity for part-time work.

Mr González's remarks underlined how Europe's jobs crisis is encouraging fresh thinking. "All the leaders see they are in trouble," said a Dutch diplomat, "this is important because it is the start of the debate".

Although most EC leaders indicated they would give Mr Delors a mandate to produce a white paper on unemployment by the end of the year, chancellor Helmut Kohl of Germany argued that the Twelve could not wait until the next EC summit in December in Brussels. He called on national governments to come forward with ideas within four to six weeks.

The UK, Spain, France and Italy, among others, called for a co-ordinated drop in interest rates, a move which diplomats interpreted as pressure on the Bundesbank to cut its market rates. Mr Delors said the size of the cut was not as important as the timing. "We are in a hole", said an aide, "a cut in interest rates is urgent". Mr Delors also put forward several new measures to produce short-term relief for the unemployed.

These include an extra Ecu3bn ($3.53bn) extension to the temporary lending facility already provided by the European Investment Bank.

This would be in addition to the Ecu5bn agreed at the Edinburgh summit. Under the proposals, the EIB would provide an interest rate subsidy of up to 3 percentage points, primarily for assisting small and medium-sized businesses.

The Commission also proposed giving new financial incentives to firms hiring new employees and work sharing. Commission officials were confident these would be supported, but it was less clear that they would support a Commission plan to provide an Ecu5bn Community bridging loan for spending on roads and transport in the EC's poorer regions.

Car bombs kill seven in Madrid

TWO CAR bombs exploded in the centre of Madrid yesterday, killing seven people and injuring another 25.

Plain-clothed policemen and first aid personnel are pictured above at the scene of the second bomb, planted near the United States embassy. The attacks bore the hallmarks of the Basque separatist Eta guerrillas. An Interior Ministry spokesman said: "We are not entirely surprised at the attacks. We knew there were Eta terrorists in Madrid but we did not known where and when they would strike."

Since 1968 the Basque group has killed more than 700 people and injured 3,000. Report, Page 22

French rates cut on soft D-Mark

By Peter John and James Blitz

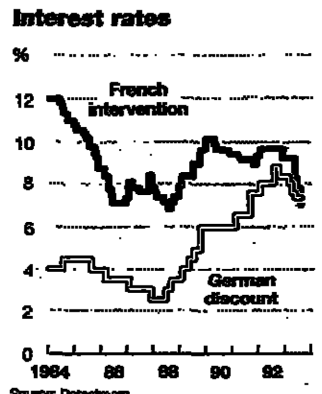
FRANCE'S official short term interest rates fell below German levels yesterday for the first time in 26 years, in the strongest indication yet that European central banks are decoupling their monetary policies from the Bundesbank's.

The Bank of France cut its intervention rate, which sets the floor for the country's money market rates, by ¼ of a percentage point, to 7 per cent. This pushed it ¼ of a percentage point below the Bundesbank's discount rate, which serves a similar function in Germany.

Yesterday's move raises new questions about the D-Mark's anchor role in the European exchange rate mechanism. The French cut was made possible by the D-Mark's recent weakness against the franc and other ERM currencies.

Currency investors have become increasingly concerned by the deterioration in the German economy and the country's growing budget deficit, and have sold D-Marks for dollars and other European currencies.

Interest rates



Source: Datastream

Four other central banks also took advantage of the D-Mark's weakness to trim their key interest rates yesterday. Portugal, the Netherlands, Belgium and Austria all eased monetary policy, in spite of the Bundesbank's determination to keep German interest rates unchanged over the past

Continued on Page 22
Bonds, Section II
Currencies, Section II

Japan still the most competitive nation, but US closing

By Frances Williams in Geneva

JAPAN remains the world's most competitive nation but no longer outperforms its trading partners across the board, according to an international survey published yesterday.

Japan's dominance among nations in the Organisation for Co-operation and Development is still unquestioned, but the US is again challenging for top spot, the survey shows.

Meanwhile, Germany has been pushed down to fifth place from second last year, as it continues to suffer the political and economic strains of unification.

The US has regained the second slot from fifth, and Denmark and Switzerland rank third and fourth, according to the annual competitiveness rankings for 1993 compiled by the International Institute of Management Development and the World Economic Forum, both Swiss based.

In Japan, top business figures are less confident than in the past and there is increasing protectionism. The report notes a growing desire for the political system to be restructured, while the values of ordinary Japanese are no longer "ones which made the economic miracle".

While the US has been pulled up the rankings by its recent economic recovery, the state of its education system, the huge budget deficit and widespread social problems pose long-term threats to competitiveness, the report says.

Singapore heads the league table for industrialising economies, followed by Hong Kong, Taiwan and Malaysia. Chile enters the rankings for the first time in fifth place, ahead of South Korea.

The report rates 38 rich and poor countries according to 370 criteria grouped into eight main factors influencing competitiveness. These cover domestic economic strength, the openness of the economy, the extent to which government policy creates a supportive business environment, and the quality of infrastructure, management, technological

Continued on Page 22
Uncertainty hits markets, Page 4
Japanese chase reform, Page 22

Rhône aims to raise $800m by selling stake in Roussel

By Alice Rawsthorn in Paris and Paul Abrahams in London

RHONE-POULENC, the French chemicals group, hopes to raise about FFr4.5bn ($800m) by selling its 35 per cent stake in Roussel Uclaf, the drugs company best known as the maker of the controversial abortion pill RU-486.

The disposal will be made next month through an open offer on the Paris stock market and an international private placing.

The sale will give Hoechst, the German chemicals group, greater control of Roussel, in which it holds a 54.5 per cent stake. Hoechst felt restricted by the stake of Rhône-Poulenc, 43.4 per cent of which is owned by the French government.

The share sale will enable Rhône-Poulenc to reduce its debt, at present at between FFr33bn and FFr35bn. This will enhance its chances of being chosen as one of the first targets of the new centre-right French government's privatisation programme.

Roussel's share structure will be simplified. After the sale, preferred non-voting shares will be swapped for ordinary voting shares on a three-for-two basis. After the sale, Roussel plans to increase its capital by FFr1.1bn, in a move that will lift Hoechst's holding to 57 per cent.

Lex — Page 22
All sides satisfied — Page 24

The new shares will pay Hoechst for the transfer of Laboratoires Hoechst, its French pharmaceutical business, to Roussel and for giving the latter a 50 per cent interest in Albert Roussel Pharma, a German marketing company in which it already held 25.1 per cent.

Hoechst plans to make savings eventually of DM250m ($150m) a year through rationalising the two groups' administration and production facilities.

The share sale is in two parts, an international book-building exercise, and a public share offering on the Paris stock exchange.

Roussel's shares were suspended yesterday at FFr575. Early bids for the international offering are being asked at between FFr550 and FFr575. The price will be struck on July 5, while the book-building is scheduled to close on July 12 when trading in the shares will resume.

Barclays de Zoete Wedd is the global co-ordinator. The Paris offering is managed by Banque National de Paris. An international road show starts in Switzerland tomorrow.

Roussel recently reported a rise in comparable profits from FFr666m in 1991 to FFr735m in 1992 on turnover of FFr14.8bn. It said yesterday that it expected sales to increase by 7 per cent to FFr15.8bn in 1993, with profits before exceptional items rising by 15 per cent to FFr850m.

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FINANCIAL TIMES
COMPANIES & MARKETS
Tuesday June 22 1993

INSIDE

TAP seeks state cash for survival

TAP-Air Portugal, the state airline, needs a government capital injection of Es80bn-100bn ($501m-$626m) by the end of the year if it is to survive, according to Mr Fernando Santos Martins, the company's president. TAP has an accumulated debt of Es70bn, with operating losses of Es27.3bn in 1992 and a similar deficit forecast for 1993. Page 24

Changing direction

Mr Lewis Platt, who replaced Mr John Young as head of Hewlett Packard last July, took over a well-tuned machine in no immediate need of running repairs. However, he sees no cause for complacency. "A company has continually to reinvent itself," he says. At Apple Computer, Mr Michael Spindler, the newly-appointed chief executive, has found that Apple's decline in personal computer profit margins may overshadow his predecessor's plans to expand into new businesses. Page 26

Launch of 'Balladur Bond'

The "Balladur Bond", the French government's new FFr40bn four-year bond issue, is to be launched this Friday, raising funds for the country's economic recovery programme. The bonds, which mature on July 16, 1997, can be converted into the shares in newly-privatised companies. Page 28

Mixed reaction to Tesco

Tesco, the UK supermarket chain, launched a £200m ($296m) issue with an unusual partly-paid structure more typically seen in the gilts market. The issue met with a mixed reaction with some dealers saying the structure was a deterrent to some investors. Page 28

Alexon shares suspended

Shares in Alexon Group, the UK women's wear retailer, were suspended at the company's request yesterday morning following speculation about the company's refinancing plans. Page 30

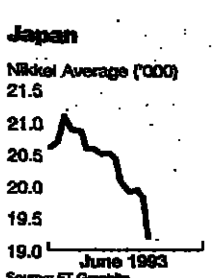
Carlton looks east

Carlton Communications, the UK broadcasting and television services group is planning to expand into the Asian television market. The company is keen to explore everything from equity stakes in Asian broadcasters to joint ventures on new channels. Page 30

Farm charity targets women

Farm Africa, a UK-based charity, is targeting women in Tanzania to persuade them to adopt more efficient methods of food production, thereby contributing to the wellbeing of children and the whole community. Page 32

Tokyo's fall felt worldwide



A 4.1 per cent drop in Tokyo last week left the FT-Actuaries World Index down 1.5 per cent in local currency terms. A team at Nomura in London, who called the market upturn last year, is concerned that Tokyo has entered its second consolidation phase. "This could last the remainder of the year and see the Nikkei back below 18,000." Back Page

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Chief price changes yesterday

FRANKFURT (DM)				Elf Aquitaine	385.4	+	10.5
Rises				Immobanque	775	+	14
Asko	858	+	16	Oreal	148.1	+	5.1
SEHE	333.2	+	15.2	Schneider	881	+	21
Lindsyp-Hall	453	+	9.2	Falls			
Falls				Euratrance	1818	-	34
Rheinmetall Pf	195	-	3.5	**TOKYO (Yen)**			
Rosenthal	264.5	-	4.5	Rises			
Varta	279	-	3.5	Yamaha Motor	835	+	10
NEW YORK ($)				Falls			
Rises				Central Finance	520	-	56
Timberlands	45½	+	5⅛	Osaka Shosen	600	-	69
Falls				Janome Sew Mch	401	-	50
Apple Computer	40⅝	-	¾	Jpn Mills & Chm	641	-	80
Caterpillar	73¾	-	3⅝	Sanrio	2120	-	210
Johnson & Jsn	42⅝	-	[illegible]				
Mai	58⅛	-	[illegible]				
Reebok	28⅛	-	1				
PARIS (FFr)							
Rises							
Club Med	371	+	16.2				

New York prices at 12.30.

LONDON (Pence)				Thorn EMI	920	+	25
Rises				Tottenham Hspr	107	+	8
BAT Inds	431	+	11	Triton Europe	25	+	3
BTR	388	+	12	Unigroup	60	+	7
Boots Inds	45	+	6	Falls			
Border TV	138	+	11	ASW	205	-	8
Cowie	75	+	4	Baillie Gfd Shin	125½	-	5½
Election Hse	65	+	8	Brake Bros	478	-	24
Forth Ports	268	+	14	Creighton's	159	-	11
Gibbs Dandy A	42	+	4	Molyneux Ests	51	-	4
Grand Met	428	+	12	Rodland	445	-	12
Slander McEwen	177	+	10	Wellcome	705	-	25
Shield Group	14½	+	3				
Thames Water	470	+	11				

Breuer calls for German takeover code

By David Waller in Frankfurt

MR ROLF BREUER, the board director responsible for Deutsche Bank's securities activities, yesterday called for a law to regulate takeovers and mergers in Germany.

Mr Breuer, who is also chairman of the German stock exchange, said that it was no excuse to say there were relatively few takeovers on the German equity markets.

It was a failing that Germany had no such laws, and he urged Germany's legislators to take the initiative to plug the loophole.

Although many senior bankers privately condemn the lack of rules governing takeovers, the financial establishment has tended to keep quiet on the issue, reflecting fears that codification of takeover rules would encourage a practice which is considered anti-social in Germany.

Analysts have also suspected that large German financial institutions have benefited from the absence of rules. They have taken advantage of the fact that it is still possible to acquire control of a company by buying a simple majority of the shares. There are no obligations to extend an offer to all shareholders, as is required under US and UK practice.

The remarks by a member of the board of Germany's biggest bank, made in the context of a speech about the future development of "Finanzplatz Deutschland" - Germany as a financial centre - reflect the German financial establishment's concern to bring regulations for the securities industry up to international standards.

The focus at present is on the passage of legislation currently before parliament.

This legislation is designed to make insider dealing a criminal offence and to introduce a German equivalent of the Securities & Exchange Commission (SEC), which regulates the US securities market.

The plan is for this to be on the statute book in the early part of next year.

The absence of such laws was seen as a failing, especially by foreign investors in the German market, and for that reason the proposed laws should be adopted as soon as possible, Mr Breuer said.

There are no present plans to introduce a takeover code, although Mr Christian Strenger, head of DWS - a Deutsche Bank affiliate which is Germany's biggest fund management company - made an outspoken call for a takeover code in December last year, saying that the absence of such rules discriminated against ordinary shareholders.

The package of new laws will, however, bring disclosure requirements into line with UK and US practice.

At present companies only have to disclose share stakes when they reach between 20 and 25 per cent, in contrast to 3 per cent in the UK.

Entertainment group's sale of light fittings division leads to renewed debate about a demerger

A new verse in the ballad of Southgate

SIR Colin Southgate, chairman of Thorn EMI, has been singing the same song for so long that he would probably be as grateful as his audience if he could move on to the next number.

The song, an interminable ballad, is about how he sold many of the family's tarnished treasures - the businesses he inherited from the group's founder Sir Jules Thorn - to devote himself to his real loves: making music and renting out television sets.

The tune some of his followers long to hear is how he made them richer by splitting the remaining music and rentals businesses into two companies. Although the sale of Thorn's light fittings division for £162m ($240m) yesterday could bring that day closer, it is still probably years rather than months away.

Even then, some think Sir Colin should carry on humming his old tune. The case for demerger, they argue, is far from overwhelming. Both of Thorn's principal businesses require further development before they can go their separate ways. It is also uncertain that they would be awarded higher stock market ratings separately than together.

Thorn EMI has sold off more than 60 businesses since 1985, including the television manufacturer Ferguson, the semiconductor producer Inmos, and Kenwood, the kitchen appliance maker.

The decision to concentrate on music and rentals was made in 1990, when Sir Colin announced he was selling the lighting division. After a proposed sale to GTE fell through, the light bulbs and tubes business was sold to General Electric of the US, with Thorn EMI holding on to the light fittings side.

Yesterday's announcement leaves the group with just one division, Thorn Security & Electronics, still for sale. Disposing of it would leave the group free to concentrate on the rentals sector, in which it is the world's leading company, and music, in which it is one of the three biggest. It could also then decide whether there is any sense in the two businesses belonging to the same group.

Sir Colin does not deny reports that he is talking to the General Electric Company of the UK about the sale of Thorn's defence business, but he points out that this is only one part of the security and electronics division.

There is also an electronic fire detection and security side. Thorn also has a business which makes credit cards for US banks. Sir Colin says that while he would like to sell all three parts of the security and electronics division, they are unlikely to go the same buyer. Until they have all been sold, which could take a few years, demerger cannot be considered.

Sir Colin wants to see the music division expanding in the US, where it has a market share of 11-12 per cent, compared with 15 per cent worldwide. In the rental business Thorn is still attempting to introduce the concept of rent-to-own in the UK. Unlike hire purchase, this allows renters to change or return appliances they no longer want, but still holds out the possibility of ownership after a certain period of rental.

Sir Colin does not pretend that there are any managerial reasons for having music and rentals in the same group. Demerger, however, can only be considered when the remaining peripheral businesses have gone. He says: "I don't think it's inevitable. The answer can only come when we sit down and value the businesses."

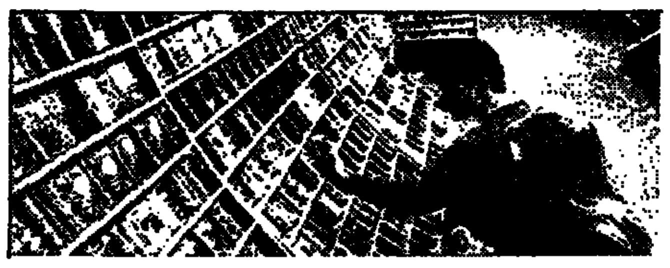
Analysts are divided about the desirability of a demerger. Mr Mark Finnie of NatWest Securities says: "As long as EMI Music remains part of Thorn EMI it remains undervalued. Demerger could quite conceivably happen in the next couple of years."

Direct comparison of stock market ratings is difficult. PolyGram, the music company with which Thorn EMI is most often compared, is not quoted in London and is 80 per cent owned by Philips of the Netherlands.

But Mr Bruce Jones, of Smith New Court, says that the music industry is not the attraction it was in the late 1980s and early 1990s when Sony of Japan bought CBS, the US record company, and Matsushita bought MCA.

Michael Skapinker

The changing shape of Thorn EMI



Main disposals

- 1985-1990: More than 60 businesses sold, including:
  - Ferguson, TV maker (1987)
  - Inmos, semiconductors (1989)
  - Kenwood, kitchen appliances (1989)
  - Lighting, one of the original businesses (1990)
- 1991: Software
- 1992: Rumbelows shops converted to rental outlets
- 1993: 59% stake in Thames Television sold
  - Light fittings

Main acquisitions

- 1987: Rent-A-Center, US
- 1989: SBK music
- 1992: Virgin Music

What's left

- Music
- Rentals
- HMV music shops
- Thorn Security & Electronics

Thorn EMI sells lighting business to Investcorp

By Richard Gourlay in London

THORN EMI yesterday confirmed the sale of its Thorn Lighting division for £162m ($243m) to Investcorp, the Bahrain-based international investment bank, in what is effectively a management buy-out.

Investcorp, which owns stakes in Saks Fifth Avenue and Tiffany in New York, Gucci of Italy and other European and US businesses, has asked the Thorn Lighting management to take an initial 3 per cent stake in the business.

Mr Philip Buscombe, of the Investcorp management committee, believed Thorn Lighting's "rightful place" was as a quoted company. The investors would be seeking a flotation in the medium term.

As with its sale of Kenwood Appliances and Thorn EMI Software to their managements, Thorn EMI will retain a stake in the new Thorn Lighting company. The parent company will receive £137m in cash, a 12 per cent equity stake, worth £8.7m, and £16.3m in subordinated loan notes.

The sale leaves Thorn EMI with a £43m post-tax exceptional charge. A £44m book profit is more than offset by an £87m goodwill write-off. The charge on this deal will be counter-balanced by a £34m exceptional profit on the sale of its stake in Thames Television to Pearson.

Thorn Lighting's launch as an independent company coincides with a sharp downturn in the continental European economies, where it makes about half its sales.

But Mr Hamish Bryce, chief executive, said the company was gaining market share in Germany and France. It would grow through the introduction of new products and by cutting costs.

The management team, which is investing £800,000, will be able to increase its 3 per cent equity stake. Investcorp has granted options to the 30 managers which could raise their stake to about 13 per cent.

Mr Buscombe said this was a feature of most of the 47 deals the bank had done in the 10 years since it was founded.

Investcorp would be managing the investment of its Arab backers, rather than managing the business.

"One of the secrets of what we do well is not to get involved with management," he said.

Investcorp was established in 1982 by Mr Nemir Kirdar, an Iraqi businessman, who brought investors together within the six Gulf Co-operation Council countries.

It has tended to lead buy-outs of companies - the largest of which was the $1.6bn acquisition of Saks Fifth Avenue, the department store chain - and then place stakes with Arab investors, managing the stake on a discretionary basis.

The group is on the point of purchasing Circle K, the bankrupt US convenience store chain. After that deal and the purchase of Thorn Lighting, it says it will have been involved in transactions with a total acquisition value of $6.3bn.

Investcorp's last sizeable deal in the UK was the purchase of the largest single stake in Computacenter, the UK systems integrator.

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Pechiney chairman warns against early privatisation

By Alice Rawsthorn in Paris

PECHINEY, the state-controlled aluminium and packaging group which is a candidate for privatisation by France's new centre-right government, may have to wait for an improvement in the metal market before being sold, according to its head.

Mr Jean Gandois, chairman of Pechiney and previously an enthusiastic exponent of privatisation for the group, warned that current conditions in the aluminium market were not conducive to a sale into the private sector.

The warning issued by Mr Gandois effectively rules out an early privatisation for Pechiney. The government would be unlikely to press ahead with a sale against the management's wishes.

Pechiney has in recent years been badly affected by the steep increase in imports of cheap aluminium from eastern Europe.

Mr Gandois, speaking at the annual meeting of Pechiney International, its packaging subsidiary, said the group's first priority was to "reduce its losses and then to be privatised".

The group's privatisation prospects may also be affected by plans to raise capital for Pechiney International. Mr Gandois said the packaging subsidiary, which is 67.9 per cent owned by Pechiney, was on course for a slight increase in net profits this year, from FFr1.07bn ($200m) in 1992, but might need new finance to continue its acquisition programme.

Pechiney was originally scheduled for sale in the mid-1980s by the last centre-right French government. But the 1987 stock market crash brought the privatisation programme to a halt. It is included in a list of 21 companies scheduled for sale by the new administration. The government hopes to proceed with the first of the proposed privatisations in September.

However, a number of companies on the current list, such as the Bull computer company and Air France, are regarded as unsellable, at least in the short term, because of financial problems.

This means that the government will be fairly limited in its choice of privatisation targets. Pechiney had previously been considered one of the more robust contenders because of its high profile among international investors.

British Steel urges EC attack on Spanish and Italian subsidies

By Andrew Baxter in London

THE war of words over the future of Europe's steel industry intensified yesterday when British Steel attacked state subsidies for its Spanish and Italian rivals and urged the European Commission to press ahead with restructuring plans.

British Steel was reporting its worst annual results since its 1988 privatisation - a pre-tax loss of £149m ($223.5m) for the year to April 3. Mr Brian Moffat, chairman and chief executive, said many continental European steelmakers had balance sheets "in ruins".

He singled out the Spanish and Italian industries as "the worst offenders" on subsidies and said British Steel and the UK government were both "utterly against" further job cuts in the UK.

Mr Moffat's outspoken comments come a year after British Steel closed its Ravenscraig steelworks in Scotland. The company said no major rationalisations were planned this year. But he warned that if state subsidies continued elsewhere, British Steel did not have unlimited funds.

The company, which passed its interim dividend, cut its final from 1.5p to 1p a share. The loss announced yesterday compares with a £55m deficit in 1991-92 and profits of £733m in 1989-90 when the industry was booming.

The main plank of the EC restructuring is a partly self-financed scheme under which companies remaining in the industry would pay rivals to cut capacity or leave the business. The EC has identified about 30m tonnes of surplus hot rolling capacity in the Community.

British Steel supports the plan, but is worried that unless subsidies are eliminated, efficient private sector producers will be forced to reduce capacity further, while weaker state-supported enterprises are sustained.

Mr Moffat said the industry's problems could be resolved if significant cuts in capacity were achieved. British Steel had the lowest costs and the strongest balance sheet among western Europe steelmakers.

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NEWS: THE COPENHAGEN SUMMIT

UK premier warns rising labour costs are undermining EC competitiveness

Major fires broadside at social policy

By Philip Stephens, Political Editor, in Copenhagen

BRITAIN'S prime minister, Mr John Major, yesterday sought to move on to the offensive in his long-running battle with the country's Community partners over social policy by spelling out the link between Europe's escalating labour costs and its declining competitiveness.

In a presentation to the Copenhagen summit which was designed to capitalise on what he sees as a new mood of "realism" in the Community, Mr Major also took a further sideswipe at Germany for preventing a European-wide reduction in interest rates.

Emphasising the advantages that Britain now enjoyed from a combination of low inflation and low borrowing costs, Mr Major said that high real interest rates elsewhere were "penalising growth, stopping investment and damaging business and consumer confidence". He also warned against any relaxation of Maastricht treaty guidelines on fiscal deficits, even though he regarded as "fanciful" the timetable set for European monetary union.

However, the prime minister reserved the thrust of his speech for a frontal attack on the damaging impact of high employment costs on competitiveness and on job-creation.

Contrasting Europe's failure to create jobs during the 1980s with the success achieved in the US, he told other leaders: "The choice before us is a stark one. We surely do not want the 17m unemployed in Europe to become 20m or more people without jobs. We must compete or we shall contract."

He called for new procedures under which any proposed EC legislation affecting industry or employment would be accompanied by a full analysis of its impact on competitiveness. In parallel, the European Commission should carry out a thorough audit of existing directives to gauge their impact on business costs and jobs.

In what his aides described as an attempt to dislodge the notion that Europe could prosper "through trade with itself", Mr Major offered a litany of figures to underline the EC's weakening competitiveness and rising structural unemployment.

The Community share of the industrialised world's exports had fallen by 10 per cent during the 1980s. EC unit wage costs had risen by 4 per cent a year over the same period. In the US, the rise had been 1 per cent a year. In Japan there had been no increase. As a result, average labour costs in manufacturing in the EC were now 20 per cent higher that in Japan or the US.

Offering his prescription, Mr Major called for greater labour market flexibility and mobility, an end to wage indexation and the promotion of flexible work patterns and employment contracts.

That provided the basis for a sharp attack on efforts to harmonise social policy across the Community. With the non-wage costs of European employers nearly twice the level of their competitors in the US, the priority should be to reduce the regulatory and social burdens on industry.

Seizing on four directives either passed or under consideration – covering working time, acquired employment rights, young people and part-time workers – Mr Major warned: "There is a real danger that harmonisation at Community level is locking us in to costly labour market rigidities and driving away business to our competitors."

Backing in principle Mr Jacques Delors' plan to produce a report for the Brussels summit next December, he said that the main focus should be on improvements to the functioning of labour markets and lightening the burdens on industry.

Delors' plan for economic recovery

- Consolidate the single market and progress to economic and monetary union (Emu)
- Get a successful conclusion to the Uruguay Round of Gatt
- Reform and redirect the educational system
- Set up a new EC development model
- Reform the EC labour market and help smaller businesses
- Increase co-operation in research and development
- Create smooth transport and telecommunications structures
- Create an EC information system to aid economic growth

Interest grows in stability pact plan

By Ian Davidson in Copenhagen

THE French plan for a new European stability pact, aimed at forestalling any future conflict over national minorities in eastern and central Europe, is today expected to receive broad endorsement from Community heads of government.

It has already drawn a cautiously interested response from other member governments, and the 12 leaders will today ask their foreign ministers to examine it in greater detail, and report back in time for the next European summit in the autumn.

Britain, which might have been expected to be sceptical of launching any new comprehensive plan for eastern Europe, has decided to give the plan a fair wind largely no doubt in the interest of fostering the improvement in Anglo-French relations.

British officials said yesterday the government thought the plan was "very interesting", and was "happy to study it further". They were wary in case the French plan should weaken the existing pan-European Helsinki (Conference on Security and Co-operation in Europe) process, but thought it contained "imaginative ideas", worthy of further study, for dealing with serious problems.

The heart of the plan, launched by Mr Edouard Balladur, France's prime minister, is that the Community should persuade the countries of eastern Europe to negotiate with their neighbours to resolve the problems of their minorities, in agreements which would subsequently be endorsed by a plenary European conference.

The French argue that the break-up of the Soviet empire has revealed the seriousness of the problem of national minorities in eastern Europe, most acutely in the case of the ethnic war in former Yugoslavia.

In the latter case the international community proved incapable of preventing the outbreak of violence. But the French claim that the EC has an important interest – and may have the influence – to ensure that this experience is not repeated elsewhere.

The first stage in the plan would be a plenary conference to identify the problems of minorities and frontiers which needed settling. Stage two would be a series of negotiations by the relevant sub-groups of countries, assisted by other European countries as mediators.

Agreements reached in these sub-negotiations would be endorsed formally six months later, by a second plenary conference of all the participating governments, and incorporated in a "European pact".

The conference would be attended by most of the countries of eastern and central Europe, as well as by Russia, the US and Canada.

But the French propose to exclude the countries of the Caucasus, on the grounds that ethnic conflict has already broken out there.

The countries of ex-Yugoslavia would also be excluded for the same reason, unless in the meantime they should have negotiated an effective peace.

The prime mover in the conference, as well as in the subsequent negotiations, would be the European Community, since it would be holding out the underlying incentive for the eastern European governments to engage in the negotiations, in the shape of ultimate rapprochement with the EC.

The French argue that their plan should be regarded as the Community's first undertaking in the field of the common foreign and security policy as laid down in the Maastricht treaty.

Izetbegovic plea for end to arms ban

By Ian Davidson

PRESIDENT Alija Izetbegovic of Bosnia last night made an urgent appeal to the European Community to lift the arms embargo against his country.

However, he received no encouragement from the EC's "troika" of foreign ministers from Britain, Denmark and Belgium representing the former, present and next presidency of the Community. Mr Niels Petersen, Danish foreign minister, said: "In my view it is not a sound idea to lift the weapons embargo; it would require a Security Council resolution, which is not forthcoming, it would lead to more fighting, and there would be great danger that United Nations forces would have to be withdrawn."

But it was learned last night that Chancellor Helmut Kohl of Germany may be preparing to argue in favour of lifting the embargo.

Mr Izetbegovic said: "We request that the arms embargo be lifted to import a limited quantity of defensive weapons. The arms embargo deprives Bosnia of the right to legitimate defence, it has made the aggressor reluctant to negotiate. Those who argue for the arms embargo want the capitulation of Bosnia-Hercegovina."

The president was ambivalent about whether he would take part in future Geneva negotiations.

"We cannot decide this here," he said. "We must go back to Sarajevo to consult the government and the parliament.

"But we shall never participate in negotiations which are a cover for further territorial aims of the Serbs. If the Serbs continue to take over territory we will not take part in negotiations."

Mr Petersen said that the final Community response to the deteriorating situation in Bosnia would have to be taken later by the 12 heads of government. "It is premature to say what the European Community will decide tonight or tomorrow," he said.

But he added: "We are fully committed to the principles of the London conference. But the Community will not pressure the Bosnian government into any agreement it does not want. We just say it is important to negotiate."

Peace mediator Lord Owen contemplates the ruin of his plan, while a pro-Bosnia demonstrator makes his point in dramatic fashion outside the conference centre

Signs of a split in Bosnian presidency

By Robert Mauthner, Diplomatic Editor

BOSNIAN President Alija Izetbegovic is coming under pressure not only from the European Community, but from other members of the joint Bosnian presidency to adopt a less hostile attitude to the latest proposals for Bosnia's future political framework.

Yesterday, Bosnia's collective presidency, which includes Serbs and Croats as well as Moslems, was reported to have postponed scheduled talks in Zagreb with Mr Izetbegovic as signs of a split emerged which could threaten his position as leader. The meeting could now take place in Geneva today, after Mr Izetbegovic's talks with EC foreign ministers in Copenhagen last night.

Now that the international mediators, Lord Owen and Mr Thorvald Stoltenberg, have conceded that the original Vance-Owen plan is defunct and that other, if less desirable avenues, must be pursued, Mr Izetbegovic is also seen by a growing number of western diplomats as the main obstacle to progress. His political demise would not be seen as a tragedy in western capitals.

United Nations peacekeepers are planning the helicopter evacuation of 145 seriously wounded people trapped in Gorazde, the last Moslem enclave in eastern Bosnia, writes Laura Silber in Belgrade. Serb commanders yesterday refused to allow an emergency relief convoy to reach Gorazde, a UN-designated safe area under Serb siege for 15 months.

Earlier, Bosnian Serb commander General Ratko Mladic gave permission for the passage of the desperately needed food and medical supplies.

It is the first overland convoy to try to reach Gorazde since the Serb forces intensified their offensive on the enclave last month. Some 60,000 people since then have depended on air-dropped relief supplies that cannot feed the entire population, most of whom are refugees from the Serb assault on eastern Bosnia.

● Local election officials reported a 96 per cent turn-out in the weekend referendum on the union of Serb-held territory in Croatia with the self-styled Serb state in Bosnia. Rebel Serb leaders said they planned to announce the union of their two areas on June 28, despite a call from Mr Radovan Karadzic, the Bosnian Serb leader, to postpone the union which would likely scupper a Serb-Croat truce on dividing Bosnia.

Significantly, after last week's meeting in Geneva of the presidents of Serbia, Montenegro, Croatia and Bosnia under the chairmanship of the mediators, separate talks were held by the mediators with members of Bosnia's collective presidency.

At these talks, Mr Izetbegovic's colleagues adopted a noticeably more open attitude than their leader to the proposals for the creation of three ethnic mini-states within a loose confederal framework, which are due to be presented in detail by Serbia and Croatia in Geneva tomorrow, according to western diplomats.

Mr Izetbegovic, by contrast, last week rejected the Serbian-Croat proposals and once again called for the lifting of the UN arms embargo against Bosnia to enable the Moslems better to defend themselves against the Serbs.

The extent of the growing split within the Bosnian presidency was underlined yesterday by Mr Fikret Abdic, generally regarded as a moderate Moslem and potential challenger for the leadership, who said that no plans should be rejected outright. He was quoted by Croatian radio as saying: "Not one idea of the future arrangements for Bosnia should be rejected."

Lord Owen, while still insisting that the Bosnian Serbs must withdraw from some of the territory they have occupied during the 14-month old Bosnian conflict, has stressed that the situation on the ground must be taken into consideration in any peace settlement. However, he hopes to save some essential elements of the Vance-Owen plan, such as the demilitarisation of Bosnia, the creation of a pluralistic democracy through free elections and the guarantee of human rights.

Most EC foreign ministers have stressed that any peace settlement must be approved by all the parties involved, and that Bosnia must remain a separate sovereign state even if the latest Serbian-Croat plan for a loose confederation of ethnic mini-states is accepted.

Delors makes a hit by aiming lower

By Lionel Barber in Copenhagen

HOBBLED by sciatica, Mr Jacques Delors, president of the European Commission, performed a difficult balancing act at the Copenhagen summit yesterday.

His exposition on why Europe is losing the race to remain competitive with the US and Asia contained plenty of food for thought, but little to offend EC leaders, many of whom have different prescriptions for dealing with today's unemployment crisis in the Community.

By winning a mandate for further study, Mr Delors has the chance to present new ideas and a possible action plan in time for the next EC summit in December.

This may sound modest, but he has learnt to temper his ambition as the balance of power has shifted from Brussels to the member states.

In his presentation, Mr Delors pointed to graphs showing that the US created almost 29m jobs between 1970 and 1990, compared to nearly 9m in the EC.

He conceded that Europe's record on youth and long-term unemployment was worse than that of its principal competitors. Mr Delors called for an increase in job agencies to help people back to work, suggesting that EC states increase their annual spending on such agencies from 0.1 per cent of GDP to 0.5 per cent of GDP.

But he rejected substantial changes either to Europe's labour protection laws or its welfare state. Mr Delors, a life-long Socialist, was never about to stage a Pauline conversion on the road to Copenhagen. His goal was more to shape the debate, now that Europe's political currents have shifted.

The Commission president knows that the highly integrated model he espoused for the Twelve in the run-up to the Maastricht treaty three years ago is no longer realistic.

Thus, the eight-point action plan contains something for everybody.

Chancellor Helmut Kohl of Germany will be pleased that Mr Delors is talking about the "enormous potential for growth" in central and eastern Europe. Mr John Major, Britain's prime minister, will take comfort that Mr Delors is preaching the virtue of open markets and is willing to support a "swift" conclusion to the Uruguay Round of global trade talks under the General Agreement on Tariffs and Trade, assuming that difference on agriculture can be overcome.

Mr Delors offered little to the protectionist lobby in his native France which is gaining ground as unemployment soars.

Instead, he is looking beyond the present Gatt round to the creation of a future world trade organisation whose rules would take into account currency movements, capital flows, environmental codes and the need "to deliver the

He has learnt to temper his ambition as the power balance has shifted

social progress to which everyone has a right . . ."

Mr Delors also wants to raise spending on research and development, devoting 3 per cent of the gross national product of EC countries to this area, compared with the present 2 per cent.

He is also calling for a "common information area" in Europe, to be created by stimulating industries such as telecommunications, computers, and fibre optics. He suggested that the first new investment by member states be Ecu5bn (£3.9bn), followed by an annual Ecu5bn-Ecu8bn programme.

These ideas confirm that Mr Delors has lost none of his instincts for thinking and acting on a grand scale. But in Copenhagen yesterday he showed that he understands that success will depend on the willingness of member states to co-operate.

Now that he is entering the twilight of his Brussels career, Mr Delors is looking to preserve today's gains in the EC as much as to chart the future.

Commitment to eastwards expansion expected

But a divided EC can provide only modest assistance, writes David Gardner

ONE of the few concrete decisions expected from the Copenhagen summit is for the EC to commit itself for the first time to Community membership for six post-Communist states in eastern and central Europe.

Since it will still be many years before these countries – Poland, Hungary, the Czech and Slovak republics, Bulgaria and Romania – have strong enough economies to survive in the EC, the 12 heads of government are also expected to agree measures to accelerate political and economic integration with the Community.

The package is modest when measured against east European needs. But it is as bold as could politically be expected from the 12, mired in recession and with some member states hesitant about the enlargement negotiations already under way with Sweden, Austria, Finland and Norway.

The measures include faster access for east European goods to the EC market; targeting EC aid for infrastructure and industrial restructuring; and the creation of a "European Political Area" through joint action in areas of common interest such as energy, transport, the environment and research, and structured collaboration on security issues through regular joint meetings.

The European Commission document that heads of government are set to endorse insists that it is in the EC's interest to commit itself to an enhanced relationship with the former Soviet satellites if they are to become future partners rather than unstable neighbours.

"As the scale and the costs of restructuring [the east European economies] become apparent," the document argues, "opposition to change is growing, with the risk of destabilisation and the reversal of current policies."

A European Political Area, it says, is "vital in view of the absence of a coherent security structure covering the countries of central and eastern Europe, and the consequent feelings of insecurity in the region."

Yet the commitment on membership carries no target date for entry. Nor, despite pressure from the Commission, Germany and the UK, is agreement likely on a date for a summit between the EC and the east Europeans to review the latter's progress towards membership.

"There is nervousness about raising expectations" in eastern Europe, one EC diplomat says. There is also danger that the commitment on membership will be so grudging as to weaken east Europe's reformers.

France, indeed, was pushing to tighten up the general membership criteria by making them more explicit. To qualify for the EC, the summit's conclusions were expected to say, a country should be a stable democracy that guarantees human and minority rights, with a functioning market economy able to conform to EC law and withstand the competition of the single market. The candidates would have to endorse the Maastricht objectives of political and monetary union. But the Community itself would take into account whether it could maintain the *élan* of European integration if it let them in.

This last hurdle emphasises the division in the 12 between "deepeners" – federalists who fear enlargement will brake progress towards European union – and "wideners" who hope that by embracing an unprecedented number of new members the EC will have to become a much looser entity.

This is a battle which should climax in the 1996 constitutional review foreseen at Maastricht, when reform of EC decision-making and the streamlining of its institutions will be decided.

By then, the Scandinavians and Austria are supposed to have become members, and member states such as the UK which favour a wider Europe hope this will tilt the balance of power against the federalists. Though no dates were in prospect for the east Europeans, the UK was last night pushing hard for a firm date for concluding the accession talks with the candidates already in the EC's ante-room.

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Lombard League shows poll strength

By Robert Graham in Rome

PARTIAL municipal elections in Italy have confirmed beyond doubt the strength of the populist Lombard League in northern Italy.

The League achieved its ambition of winning the mayoral race in Milan and will now be able to use Italy's biggest northern city as a show-piece for plans to clean up the administration and privatise municipal services.

The second round run-off to elect mayors, held on Sunday, has also demonstrated the power of the Party of the Democratic Left (PDS), the former communist party. It managed to act as a rallying point in the centre and south of the country. The PDS, allying with a shifting series of local partners that included the Republicans, Greens and Mr Mario Segni's referendum movement, has done extraordinarily well at the expense of its traditional rivals, the Christian Democrat party and the socialists.

The new mayors elected for such cities as Turin and Ravenna to Siena, Catania and Agrigento now have the right to choose 60 per cent of the municipal councillors. This means that for the first time Italian municipalities will have stable administrations over the next four-year term of office.

Also, there will be none of the usual politicking to form administrations which in the past have taken up to three months or more to organise. The new rules for municipal elections, which were approved in March, allowed for direct election of mayors and laid down rules for the allocation of seats with a majority voting system – with 60 per cent of the seats allocated to the winning mayoral candidate's party/coalition and 40 per cent to the other parties on the basis of the first round vote.

Mr Marco Formentini, the 63 year-old mayor of Milan, takes over an administration that has been run by a special commissioner for the past months because the corruption scandals have completely undermined the governing coalition.

Mr Formentini, a lawyer who worked for more than 10 years in the European Community, easily beat his left-wing rival, Mr Nando dalla Chiesa, gaining 57 per cent of the vote.

Elsewhere the League consolidated its hold on several north towns, including Novara and three provincial administrations – Gorizia, Mantua and Pavia.

In the first round held on June 6, a broad pattern emerged of the League gaining a wide margin of support to become the main party in the North; the PDS took control of the centre in terms of votes; while the Christian Democrats continued to dominate the South.

Under the new rules, the mayor had to be elected by an overall majority in towns of more than 15,000.

This led to a second round in 145 towns and cities between the two candidates who received most votes.

The League always insisted on going it alone; but the system benefited those candidates who presented themselves as new faces.

Thus, although the Christian Democrats still obtained the most votes overall, the PDS has acquired more power because its candidates for mayor have done almost unversally well in the centre and south. The PDS alliance also won in Turin with their telecommunications professor candidate, Mr Valentino Castellani.

FT writers assess a Community-wide deregulation of the transport industry

EC road hauliers weigh new regime

ROAD hauliers throughout the European Community yesterday began digesting the implications of what could prove to be one of the most far-reaching changes yet to take place in their industry.

Late on Saturday night, after months of wrangling, EC transport ministers thrashed out a deal that will lead to a total deregulation of the Community's road haulage market in 1998.

At present, EC road hauliers are not allowed to ply for hire in countries other than their own except under a restrictive licensing system. But after reaching agreement on the related issue of charging lorries for using EC motorways, EC ministers decided the licensing regime should gradually be relaxed until, on July 1, 1998, EC hauliers would be free to pick up or deliver goods between any two points in the community.

One reason the move is significant is that it means more efficient use can be made of the one-in-three lorries returning empty after delivering their loads in other EC countries. But it also makes it possible for hauliers to start touting for business in other EC member states or to expand geographically by setting up branches or depots in neighbouring territories.

In theory, therefore, the door has been opened to an intensification of the competition in what is already a highly competitive market. But what will only slowly become clear is who will gain from the move, and who will lose.

The liberalisation deal could prove to be one of the most far-reaching changes yet to take place in their industry

Among the potential gainers, two of the best placed countries could be Britain and the Netherlands. Britain deregulated its domestic road haulage 25 years ago, long before other European countries started to dismantle their quantitative systems under which licences were rationed, so its hauliers have long since made the adjustment to a competitive environment.

Even so, Ms Ivy Penman, head of international planning for the UK distribution company Exel Logistics, said companies were more likely to expand by acquisition than by spreading existing operations into neighbouring countries. "We have found that if you want credibility in a country, you need to acquire local management," she said.

There was also some scepticism about the degree to which smaller independent hauliers would ply for hire in other countries. Mr Dick Denby, owner of Lincoln-based international hauliers Denby Transport, said it was unlikely that a company wanting its goods transported would prefer an unknown foreign operator to a well-known local haulier.

And Mr John Guttridge, head of external affairs at the Freight Transport Association, thought it equally unlikely that many continental hauliers would seek work in the UK. "There are enough UK hauliers queueing up outside customers' premises as it is," he said.

In the Netherlands, a common approach to European road transport is important because the country's trucking industry accounts for 25 per cent of cross-border road freight traffic in Europe. Dutch road hauliers have traditionally made full use of the international haulage licences available under the existing system, and for them, total deregulation cannot come too soon.

The Dutch hauliers hope the agreement will enable them to build on their strong European market share to capture a proportion of the domestic markets in other countries. They believe that competitors in the centre of the EC such as France will feel less compelled to seek out this kind of new business. Nedlloyd, the Netherlands' largest transport group which has expanded strongly in Germany in recent years, said: "Anything which breaks down barriers in Europe is good for us."

Other countries seem less enthusiastic about the changes. In France, for example, Mr Bernard Bosson, France's transport minister, was yesterday seeking to reassure the French road haulage industry that the five-year transition period would give them plenty of time to adjust to unbridled competition.

Mr Bosson said it was essential that "liberalisation should be not brutal, but should be very progressive and contained", and called for parallel harmonisation of "social and technical" standards in the EC to protect French lorry drivers from unfair competition.

In Germany, which secured the right to introduce motorway charges for foreign lorries in return for its agreement to deregulation, the German road haulage industry yesterday gave a cautious welcome to the Luxembourg decision. "Anything which reduces the competitive disadvantage of the German road hauliers must be welcomed," said Mr Viktor Ketter of Interdean, the international removals company.

Mr Herbert Nickenig, responsible for the road haulage section of the federation of haulage contractors, said the deal could still mean a competitive advantage for rival national industries, above all the Dutch.

But as more than one European haulier pointed out yesterday, with Germany vowing to plough the proceeds of its motorway charges into restructuring Deutsche Bundesbahn, the biggest gainer from the Luxembourg agreement might not be the road haulage industry at all, but German railways.

Reporting by Richard Tomkins, Ronald van de Krol, David Buchan and Quentin Peel

SPD's leader in pledge to challenge Kohl

By Quentin Peel in Bonn

MR Rudolf Scharping, the youthful new leader of Germany's opposition Social Democrats, yesterday moved rapidly to consolidate his position, announcing his determination to challenge Mr Helmut Kohl for the chancellorship in next year's elections.

His decision aims to end in-fighting within the troubled opposition party, and was announced with the public support of Mr Oskar Lafontaine, the deputy leader and state premier of the Saarland, who was the SPD candidate for chancellor at the last elections.

Mr Scharping, aged 45, who is currently state premier of the Rhineland-Palatinate, made clear his determination to keep the important strings of party leadership in his own hands, by taking over as chairman of the committee to draft the party's 1994 election manifesto, under the heading Germany 2000, a job previously held by Mr Lafontaine.

The new leader will be formally confirmed as party chairman on Friday, at an emergency congress in Essen, although the choice of candidate for chancellor will only be formally made next year. He said he would announce a government team by July 5. His move follows three sets of "intensive talks" with Mr Lafontaine over the past week since Mr Scharping emerged as the clear victor from an unprecedented poll of party members to choose a new leader. In persuading his deputy to bury his own ambitions, he was undoubtedly strengthened by recent opinion polls, which showed Mr Lafontaine as one of the few SPD leaders whose popularity is actually lower than that of Chancellor Kohl.

In the magazine, Der Spiegel, published yesterday, a poll suggested that Mr Scharping would narrowly defeat Mr Kohl by 39 per cent to 36 per cent in a battle for the chancellorship. If Mr Lafontaine stood, he would lose by 32 per cent to 46 per cent, it said.

Although Mr Lafontaine is far more colourful than the cautious Mr Scharping, he is also far more controversial, and has never recovered from his disastrous election campaign in 1990, when he (quite correctly) warned of the economic problems certain to arise from German unification. At that time, the German electorate simply did not want to know, and voted for the optimistic chancellor.

NEWS IN BRIEF

'Charisma' of Lopez defeats GM's case

CHARISMA alone was enough to persuade seven former General Motors managers to follow Mr José Ignacio Lopez de Arriortúa to new jobs at Volkswagen, a Frankfurt court said yesterday, writes **Christopher Parkes in Frankfurt.**

Rejecting claims from Adam Opel, GM's German subsidiary, that VW's hiring the men breached fair competition rules, the court said in a written ruling that Mr Lopez's colleagues had tried to persuade him to stay with GM.

In the event they needed no urging, having already told him before he decided to go that they wanted to continue working with him whatever happened. The court also said that Opel had failed to convince it that any knowledge its former employees took with them was confidential and could not be transferred to VW.

Opel still plans to proceed with a full hearing on the case, and, meanwhile, investigations are continuing into possible charges of industrial espionage against Mr Lopez and his associates.

French seen as more protectionist

Gloomy about prospects for an end to the recession, most French people favour protectionism on imports and a tough line with the US on world trade negotiations, according to an opinion poll released yesterday, **Reuter reports from Paris.** Some 67 per cent thought France and Europe should limit non-French or non-European imports and 62 per cent thought Europe should be tougher with Washington in the Gatt world trade talks, even if this meant upsetting relations with the US. The poll by CSA for Le Parisien newspaper also said 79 per cent of those asked thought the recession would go on for at least a year or two.

Turks held over Paris shoot-out

French police have arrested three suspected members of the Turkish extreme left-wing political group, Devsol, after a shoot-out in central Paris in which one man was was killed, a magistrate said yesterday, **Reuter reports from Paris.**

The three were arrested on Saturday following the shooting on June 15 involving up to 15 gunmen from rival Devsol factions. They have been placed under investigation on several serious charges including the murder, the authorities said.

Danes join with Nasa in project

Denmark is to take part in a DKr120m ($18.5m) scientific satellite project in co-operation with the US space agency, Nasa, in 1995, the Industry Ministry announced yesterday, **Reuter reports from Copenhagen.** The project involves the launch of a small Danish-built 50 kg satellite into orbit at a height of 800km to study the Earth's magnetic field.

NEWS: EUROPE

Russian reformers to free coal price

By Leyla Boulton in Moscow

THE RUSSIAN government will free coal prices next month in its latest attempt to adhere to a radical economic reform programme agreed with the International Monetary Fund.

Mr Sergi Vasiliev, director of the government's centre for monitoring economic reform, said a presidential decree published yesterday marked a victory for radicals within the government over conservative ministers' preference for an administrative increase in fixed prices.

He described the decision, which was taken after "a very big fight within the government", as a breakthrough for efforts to lift remaining price controls on energy in the face of fierce opposition from industrial lobbyists and the state bureaucracy.

In an attempt to help mines earn more from exports, the decree also reduces requirements for the compulsory sale of hard currency earnings to the state, abolishes export tariffs for coal, and promises to do away with all quotas and licensing rules for coking coal from January 1. But the Russian government's timing seems geared more to reassuring the IMF as it prepares to disburse a $1.5bn (£1bn) loan to Moscow, and to obtaining more foreign aid when G7 leaders meet President Boris Yeltsin at their summit next month.

While most other prices were freed last year, remaining controls in the energy sector have helped fuel inflation, reduced pressure on Russian industry to become more efficient, and exposed exporters to accusations in the west that they enjoy unfair subsidies.

Mr Yuri Shafranik, the fuel and energy minister, said on Friday that the government aimed to free all energy prices by the end of the year. But Mr Vasiliev said yesterday it was not yet clear how and when remaining controls on the domestic price of oil would be freed and quotas on its export removed.

Deficit, not ideology, drives French sell-off

David Buchan *outlines the likely course and timetable of the new conservative government's privatisation programme*

French Privatisation

FRANCE'S new wave of privatisations is primarily a matter of money, in contrast to those started seven years ago which were driven as much by politics. On their return to power in 1986, France's conservatives were determined to show that by pushing privatisation through under the nose of a defiant President François Mitterrand, they could roll back the nationalisations that were one of the main Socialist achievements of the early 1980s.

Today, however, the conservatives have no such need to prove their political virility. In parliamentary elections in March they routed a Socialist government which, far from trying to re-nationalise companies in the late 1980s, partly conceded the case for private ownership by half-heartedly selling off a few state assets themselves.

Some die-hard Socialists still rail about "the cream of French industry being flogged off to foreign predators". But, as Mr Edmond Alphandéry, the economy minister in charge of privatisation, told the senate, "the ideological debate is over".

The government of Prime Minister Edouard Balladur has a pressing need to get a lot of money from privatisation. It cannot squeeze any more out of a budget in which spending will outstrip revenue by FFr317bn (£38bn) this year. So it is raising FFr40bn in a special "Balladur bond" issue, which it wants to finance with privatisation proceeds this autumn, rather than by further increasing the deficit.

In theory, that should not be difficult. The government has put 21 companies on the auction block (see table), in what will be Europe's largest privatisation. Some of them are confirmed money-losers, such as Air France and Bull, the computer company, which have been put on the sell-off list probably more as a jolt to their managements than in the realistic hope of finding early buyers. Others, though, are stars in their sectors - Elf-Aquitaine in oil or Rhône-Poulenc in chemicals.

One big sale would do the trick this year. Selling the state's 50 per cent stake in Elf would, according to Baring Securities, bring in between FFr38bn and FFr47bn.

But the relatively small domestic stock market remains in frail health, while many of the foreign investors who already hold about 30 per cent of the shares on the Paris bourse believe Gallic protectionism will prevent them getting much more.

The government has done away with the 20 per cent ceiling it put on foreign purchases of the 1986-88 privatisation issues. But, taking a leaf out of the UK government's book, it has said it would retain a golden share in strategic companies such as Elf, Air France and the two big defence contractors, Aerospatiale and Thomson.

If and when such companies reach private hands, the state would still retain "very strong prerogatives" in their management "when essential national interests are at stake", Mr Alphandéry assured anxious senators.

With pledges like this, the government will have little problem getting privatisation through parliament. It hopes to celebrate Bastille Day (July 14) with the framework legislation on the statute book. Two weeks later it will establish the new privatisation committee, and give it something to work on immediately by announcing the first batch of companies to be sold.

The privatisation committee will value the companies to be sold and conduct tenders among companies wanting to buy into the privatised entities as part of a ring of core shareholders, or *noyaux durs*. Last time around, Mr Edouard Balladur, then finance minister, took the decision himself on the *noyaux durs* and came in for considerable criticism that he was rewarding political and business cronies. To be above such suspicion, the government will now in effect farm out the forming of the *noyaux durs* to the privatisation committee.

The first batch, probably two to five companies, will cover several sectors of the economy. The idea is to get started on a broad front on the valuing of companies, arranging for the conversion of any non-voting *certificats d'investissement* into shares and choosing banking advisers, and at the same time to give the government some flexibility to advance or delay a sale depending on the market.

What criteria will the government use in choosing which sales should go forward? "Above all, it will be the health of the companies themselves," says a senior economy ministry official. "This obviously includes the state of the sector in which it operates. We will not, for instance, offer to the market companies which happen to be making cyclical losses, even if they are basically sound."

A key question for investors will be the management of the company they are buying into. The government has inherited a bevy of managers largely appointed by the Socialists in 1991 for three years. It has decided that there should be no general chopping off of heads until at least 1994. But, in the case of companies slated for privatisation before then, it has said it may make changes.

"Experience has shown that a management must be comfortable with privatisation for it to succeed," the economy ministry official says. "Privatisation involves a big publicity campaign, and it is impossible for that to be carried out by someone who is not convinced of its merits and who does not have a good chance of staying on after the change".

One appointment, with privatisation clearly in mind, has already been made - Mr Michel Pébereau moved last month from Crédit Commercial de France, which he took private with great élan in 1987, to head Banque Nationale de Paris.

From all this, it is possible to guess that the first group of companies put on the slipway to privatisation might include BNP among the banks, AGF among the three insurance companies, and one of the two sound and big industrial concerns, Elf or Rhône-Poulenc.

Rhône Poulenc said yesterday it would sell its 35 per cent stake in Roussel-Uclaf, the pharmaceutical company, for about FFr4.5bn, so reducing its debt and making itself more attractive for privatisation.

The other guessing game centres on which companies might want to join in the *noyaux durs*, which Mr Alphandéry says will henceforth be open to foreign, especially European, investors. Up to now the *noyaux durs* have been almost entirely French. But many French institutional investors got a poor return on the earlier privatisations; their shares in Paribas are worth little more than what they paid for them in 1987 and their shares in Suez are worth less.

Because of the cross-holdings arranged under the Socialists, some privatisation candidates already come with their own *noyaux durs*. Crédit Lyonnais, whose own sale will have to wait until it moves out of the red, has been very active, taking stakes in Rhône-Poulenc, the Aerospatiale and Usinor, the steel company. BNP has a link up with UAP, the insurance company, and has an agreement with Dresdner bank for a 10 per cent equity swap.

Mr Alphandéry has said that *noyaux durs* should stay where they already exist. But some investors are clearly keen to expand. Société Générale, the bank privatised in 1987, has said it would like to take equity in its long-standing customer, Rhône-Poulenc, while St Gobain, the glass company privatised in 1986, has been rumoured to want to link up with Péchiney, the metals group, with which it has common interests in packaging.

The programme is clearly appetising to professional investors. It has, however, not so far excited the small punter. According to a recent Sofres opinion poll, only 4 per cent of the French said they were "certainly interested" in buying shares in the newly-privatised companies.

The government is offering a variety of incentives to entice the small investor. These include allowing employees to buy shares in privatised companies at a 20 per cent discount, investors to pay by instalments on some big issues, and holders of "Balladur bonds" to convert their bonds into shares of privatised companies. An early test, therefore, of privatisation's prospects will be the level of interest in the Balladur bond issue, to be launched on Friday.

Further articles on the French privatisation programme will appear in coming weeks

THE 21 ON THE BLOCK

Company	Turnover (Fr bn)	Latest results (Fr m)	Labour force	State shareholding March '93 %	Date of nationalisation	President
Aérospatiale	52.2	-2,380	45,000	73.7	Aug 1936	Louis Gallois
Air France	67.2	-3,266	64,000	99.3	Jun 1945	Bernard Attali
Banque Hervet	1.1	-186	1,350	72.5	Feb 1982	Patrick Careil
BNP	38.0	+2,200	58,000	72.9	Dec 1945	Michel Pébereau
Caisse cent. de Réassurance	3.7	+245	160	100.0	Apr 1946	Alexis Fuset
Bull	30.2	-4,700	35,200	72.9	Feb 1982	Bernard Pache
Compagnie Gén. Maritime	4.9	-735	2,500	100.0	Jul 1933	Eric Giuily
Crédit Lyonnais	43.3	-1,800	70,000	52.5	Dec 1945	Jean-Yves Haberer
Pechiney	65.3	+203	61,000	55.7	Feb 1982	Jean Gandois
Renault	179.5	+5,680	146,600	79.8	Jan 1945	Louis Schweitzer
Rhône-Poulenc	81.7	+2,200	83,300	44.0	Feb 1982	Jean-René Fourtou
AGF	59.4	+1,500	22,000	65.5	Apr 1946	Michel Albert
GAN	43.7	+402	49,000	79.4	Apr 1946	François Heilbronner
UAP	125.0	+1,100	40,000	55.9	Apr 1946	Jean Peyrelevade
Seita	13.9	+367	5,500	100.0	Jan 1959	Bertrand de Gallé
Société Mars. de Crédit	1.3	-464	2,368	100.0	Feb 1982	Jean Matouk
SNECMA	22.8	-794	25,300	96.9	May 1945	Gérard Renon
Elf-Aquitaine	200.5	+6,200	87,000	50.1	Nov 1941	Loïk Le Floch-Prigent
Thomson	71.0	-544	100,000	75.8	Feb 1982	Alain Gomez
Usinor-Sacilor	87.0	-2,400	90,800	80.0	Nov 1981	Francis Mer
Caisse Nat. de prévoyance	42.2	+1,120	2,000	42.5	Jul 1868	Pierre Daniel

Source: Le Monde and French Ministry of Finance

France's job creation programme is presented to parliament

By Alice Rawsthorn in Paris

THE French government yesterday presented proposals to parliament for emergency measures to reduce unemployment, including a five-year plan to encourage job-sharing and part-time working which will be launched in September. Mr Michel Giraud, employment minister, told parliament that "urgent action" was needed to "put the brakes on the damaging increase in joblessness".

French unemployment now stands *at a post-war record of 10.9 per cent.*

The first round of job creation measures includes reducing the social charges paid by employers for low-wage workers. Tax incentives will also be offered to companies taking on young trainees. Mr Giraud said the September legislation would *involve making working hours more* flexible by enabling employers to negotiate shorter working weeks.

Unemployment is one of the most controversial political issues in France. It was one of the chief reasons for the defeat of the old Socialist government in the March elections and has already caused ructions within the new centre-right administration.

However, the government's efforts *to stem the rise in joblessness have* been hampered by the fragile state of the French economy.

The level of industrial output fell *by 0.6 per cent in April, according* to official figures published yesterday. This means that output declined by 5.2 per cent in the year *to the end of April.* Meanwhile, the latest Bank of France business survey suggests that output stabilised in May, although demand declined, *particularly in export markets.*

NEWS: INTERNATIONAL

Business as usual claimed as important economic talks loom

Japan's bureaucrats guide policy

By Michiyo Nakamoto in Tokyo

THE UNRAVELLING of Japan's political structure over the past few days has raised concerns about the country's ability to deal with some of the most thorny trade and economic issues it has faced in its post-war history. The fear is that a lame duck government in Japan will stymie progress in important negotiations from the Uruguay Round talks to the Group of Seven summit next month.

Japanese authorities are hard-pressed to convince the outside world that it is business as usual. "Basically there will be no impact on policy," says Mr Toru Aizawa, director of the Gatt Affairs Office of the Ministry of International Trade and Industry, no matter who wins in the elections.

Japanese bureaucrats cherish the role they play in forming and implementing policy. The view from the ministries is that Japan has seen prime ministers come and go and has lived with coalition governments in the past, while the bureaucrats have worked away *behind the scenes.*

"No matter what kind of government is formed, it is possible to continue building on the *work that has been done* [in trade relations] in a business-like way," says an official at the Ministry of Foreign Affairs.

Foreigners who have watched Japan closely agree the political turmoil is unlikely to upset the basic trend toward more open markets. "Policy-making is usually not at the level of politicians. I think Japan has the ability *to carry* on," says Mr Michael Graham, counsellor for trade and industry at the European Community delegation in Tokyo.

The view that Japanese policy is not going to change course dramatically and that those changes are not likely to stand in the way of practical steps being taken to implement those policies, rests on an underlying belief that there is a national consensus about where the country is headed.

"There will be no change of course in our promotion of free trade. Politicians are not stupid. They wouldn't be so foolish as to change the course of progress made so far," says one trade official.

Trade representatives of the US, EC and Canada are gathering in Tokyo for so-called Quad discussions with their Japanese counterparts tomorrow and Thursday ahead of the G7 summit. There is no doubt the political upheavals will provide a distraction.

"In issues like the US-Japan relationship which are so complicated that they require a political push, things may be difficult," admitted an official at Japan's Ministry of International Trade and Industry.

Such issues include the liberalisation of Japan's rice market, the abolition of tariffs on imported spirits which the US and the EC are demanding, and possibly the debate with the US over a new framework *for negotiations on trade and* economic issues, including a US request to set benchmarks to measure progress in opening Japan's markets.

"Not having a political power-broker in the LDP will make concessions [from Japan] difficult," says Mr Stephen Anderson, visiting research fellow at Asian Forum Japan, a think tank. In the past when there was a Japanese concession it has often come from the dominant faction in the ruling Lib*eral Democratic party.*

Masayoshi Takemura (seated front row second left) with nine other former Liberal Democrats posing in apparent unity during a news conference yesterday at the launch of the New Party Harbinger at a Tokyo hotel

Uncertainty upsets financial markets

By Emiko Terazono in Tokyo

JAPAN'S financial markets were hit *yesterday by mounting uncertainty* over the country's political outlook. Stocks, bonds and the yen tumbled as investors braced themselves for weakness before parliamentary elections called for July 18.

The Nikkei index of 225 leading stocks lost 592.11 points or 3 per cent to a four-month low of 19,212.43, the 10-year benchmark bond fell 0.38 points to 106.91, and the yen declined 2.9 per cent from Friday's Tokyo close to Y110.48.

Business leaders expressed concern over the split in the ruling Liberal Democratic party. Mr Gaishi Hiraiwa, chairman of the Keidanren, the influential business leaders' federation, blamed political uncertainty for the fall in stocks and the yen, and pledged continued support for the LDP. Mr Shoichiro Toyoda, chairman of Toyota Motor, urged early political stability.

While some analysts argued that Japan's surging trade surplus remained a case for another strengthening of the *Japanese currency, Mr Geoffrey Barker,* economist at Baring Securities in Tokyo, said waning hopes of early economic recovery meant the yen might not rally soon.

The weakening of the yen comes as a relief for many exporters, and may alleviate pressure on Mr Yasushi Mieno, governor of the Bank of Japan, to ease monetary policy further by cutting the official discount rate.

Equity investors blamed the Nikkei fall on a technical correction triggered *by the political news. The Nikkei rose* 24 per cent in the first four months this year, but has stalled over the past month amid uncertainty over the direction of the economy. Many investors felt prices had become overvalued and the Nikkei price/earnings ratio of 80 at the start of this month did not correctly reflect gloomy prospects for corporate earnings.

Seoul calls for peace at Hyundai

By John Burton in Seoul

SOUTH KOREAN officials yesterday appealed for an end to escalating labour disputes at Hyundai, the nation's largest business conglomerate, which threaten to derail the government's economic recovery programme.

A partial walkout that began more than two weeks ago at Hyundai Precision, a container and jeep manufacturer, has since spread to six other Hyundai companies located at the *group's huge industrial complex* in Ulsan.

Among the subsidiaries affected by the production *slowdown* is Hyundai Motor, Korea's largest car maker. Workers at Hyundai Heavy Industries, the nation's biggest *shipyard*, are threatening to join the industrial action this week.

The well-organised trade unions at Hyundai have usually set the pace for labour negotiations throughout the country in past years.

Government officials fear that widespread industrial action at Hyundai, including the possibility of full-scale strikes or lockouts by the end of the week, could spread to other industrial groups and end the government's attempt to curb wage growth this year.

Sharp rises in wages over the past five years, which have averaged almost 20 per *cent* annually, have seriously harmed the country's competitiveness.

Prospects for wage moderation initially appeared encouraging this year. In an unprecedented accord in April, the Korea Employers' Federation and the Korea Federation of Trade Unions agreed to limit wage growth to between 4.7 and 8.9 per cent against 16 per cent in 1992.

This coincided with a steep *fall in labour disputes* during the first five months of 1993. But the number of industrial disputes has risen sharply this month.

Vehicles are one of Korea's leading exports, with Hyundai Motors normally accounting for two-thirds of such shipments abroad.

Rabin coalition scandal threat

By Julian Ozanne in Jerusalem

A CORRUPTION scandal in the Israeli cabinet threatens the country's fragile coalition government and could harm the ability of Prime Minister Yitzhak Rabin to negotiate peace with Palestinians and the country's Arab neighbours.

Yesterday Rabbi Aryeh Deri, the interior minister and head of the Shas party, a coalition partner, said he would resign after the attorney general said the *minister would be charged* with aggravated fraud, accepting bribes, violating the public trust and fraudulently register*ing corporate documents.*

"I'll resign from the cabinet but I have yet to decide when," Mr Deri said.

Some officials from Shas - a centre right ultra-religious party with six Knesset members - said yesterday they would quit the coalition. This would leave Mr Rabin with a bare one-vote majority in the 120-strong parliament.

"Shas should absolutely quit the coalition," Mr Aryeh Gamliel, a Shas member of parliament, said yesterday. "This is a base libel."

Mr Deri has been facing the fraud allegations for three years after investigators charged that millions of dollars were illegally transfered from his ministry to Shas organisa*tions and synagogues* through local councils which were pressed by Mr Deri and his aides to collaborate. Some of the money is claimed to have ended up in private hands.

Mr Deri was widely viewed as a force for moderation on the Israeli centre-right, keeping his party in the year-old Labour-led coalition against increasing pressure *from right*-wing political groups and settlers to quit the government.

The right-wing Likud party yesterday said that without Shas, Mr Rabin's 44-strong Labour party would be forced to depend on left-wing and Arab support to stay in power, reducing his legitimacy to sign a peace deal.

Mr Moshe Katzav, the head of the Likud parliamentary group, said in an interview: "Mr Rabin no longer has a mandate to continue his peace policy. The right thing to do now is to call early elections and give the Israeli people the *right to decide.*"

Labour party officials conceded that the indictment against Mr Deri had damaged the *coalition but* said they believed Shas would remain in the coalition. "We have already said that we cannot take the big *decisions* about peace if Shas leaves the coalition," said Mr Eli Dayan, leader of the Labour parliamentary group.

Nigerian poll appeal filed

NIGERIA'S electoral commission filed an appeal yesterday against a court order blocking official declaration of the winner of presidential elections on June 12, Reuter reports from Lagos.

The court order, which put *in doubt a plan by the ruling* military to hand over to civilians, has left the country in political uncertainty.

The high court in Abuja, the federal capital, issued the order forcing the NEC to suspend announcement of *poll* results. Unofficial and incomplete returns then showed Mr Moshood Abiola, a southern businessman, way *ahead* of Mr Bashir Tofa, a northerner and his sole rival.

UN human rights 'sham'

THE HEAD of Amnesty International said yesterday that the United Nations World Conference on Human Rights had been a flop and called the first half of the meeting "a week of shame", Reuter reports from Vienna.

"This is a total flop, a sham and a week of shame," said Mr Pierre Sane of Senegal, the secretary general of the London-based human rights organisation. "While delegates were talking people were being killed, tortured, executed or threatened all over the world."

Mr Sane's *assessment* was disputed by many official delegates at the conference of more than 160 UN member states.

A senator far from the Cam, in the worst of jobs

"I will fight to the best of my abilities" – Fernando Henrique Cardoso, Brazil's new finance minister, gave **Christina Lamb** a flying interview

WHEN Mr Fernando Henrique Cardoso discovered that he had been named Brazil's finance minister, during a trip to New York as foreign minister, he jokingly asked for political asylum at Kennedy Airport.

Managing the world's ninth-largest economy is no easy task at the best of times but – with annual inflation of 1,500 per cent, an obstreperous Congress, and a mercurial president who has disposed of three finance ministers since December – it seems more like Mission Impossible.

"I think this is the worst job in Brazil, worse even than being president, as he can blame me," said the sociology professor and senator, in an interview with the Financial Times on his 62nd birthday. "But I will fight to the best of my abilities."

Although Mr Cardoso has kept smiling since taking office last month, he is acutely conscious of the weight of expectations upon him. The irony is that the man who, during the military regime of 1964-85 was persecuted by secret police, barred from lecturing and exiled to Chile, is now regarded even by the generals as the last chance for stabilising Latin America's largest economy.

If he succeeds, he would be a strong contender for president in the election of December next year.

The difficulty of Mr Cardoso's task has been brought home since he announced his "Real Plan" last week. This, the seventh economic plan in as many years, is an orthodox programme aimed to balance the budget through a cut equivalent to $6bn in federal government spending, a crackdown on tax evasion, continued privatisation, a new tax on cheques and an attempt to force the profligate states and municipalities to pay back some of the $40bn they owe the federal government.

In Brasília, the plan is already being written off and likened to the Ten Commandments – "long inscribed and never obeyed".

By way of listing just some of the troubles and woes – last week, the Congress failed to approve the cheque tax; alleging corruption, a congressional commission called for suspension of the privatisation programme; the health minister is refusing to accept cuts; state governors are claiming that the federal government owes *them* money and the Brasília water and energy utilities turned off lights and water for government departments which have not paid their bills; one day before the final deadline, only 3.2m of Brazil's 52m working population have filed tax returns.

But Mr Cardoso is not one to desist. From first thing in the morning till last thing at night, he is engaged in a round of negotiations with politicians, ministers, governors and directors of state companies, using every ounce of his considerable charm in a valiant attempt to win them over and balance Brazil's budget.

"Finally the government is admitting responsibility and trying to put its house in order," he says. "We must end this crazy situation where everyone owes everyone and nobody pays".

Speaking on board his aircraft to São Paulo, and clearly under strain, Mr Cardoso says he was shocked by the public sector accounts. "People must realise that we no longer have any choice but to cut, things are so bad". He points out that the federal wage bill has increased 30 per cent over last year to $18bn, while interest payments now consume more than 60 per cent of the $234bn budget, due to last year's high interest rates on the government's domestic debt and the resumption of foreign debt payments.

He shrugs off doubts over his toughness, exacerbated by federal hand-outs last week to the local governments of Brasília and Rio de Janeiro. "Just because I'm polite does not mean that I will cede," he laughs. "If Congress won't vote the cheque tax, then I shall go on television and tell people that this will mean closure of hospitals and schools."

To demonstrate his resolve, he sent a list of 1,000 alleged tax evaders to the courts yesterday. "It's important that the courts act – we need people to go to prison, examples to be made. The way things are at the moment, we don't need the Bahamas – Brazil is a tax haven." Mr Cardoso is also appealing to the justice system to liberate money held in escrow: "It is too easy for businesses to get an injunction so as not to pay taxes. Billions of dollars are being held while our hospitals are in crisis."

The hardest battle, Mr Cardoso says, is with state companies, particularly state banks which have exceeded credit limits by 21 times to fund local government. Some banks "pay graduates $6,000 per month. That's ridiculous – I'm a senator and finance minister, and earn $2,000!"

Privatisation is seen as crucial to relieve pressure on the Treasury. The state steel mill Cosipa alone is costing $1m a day in interest and the steel sector has consumed $12bn in the last decade, he claims.

Investors are disappointed that no major sell-offs have been announced, but Mr Cardoso explains: "There are already so many things on the list, such as the electricity sector and railways, that it is better to get on with those and do that well than raise new controversy. But we will sell the big companies."

Brazilian inflation has now been stuck at more than 20 per cent a month for almost two years. Economists point out that, even if Mr Cardoso succeeeds in implementing his plan, it will not be sufficient to bring down inflation from current levels of 32 per cent a month, particularly as spending pressures mount before the presidential, congressional and gubernatorial elections next year.

Joking that, "if I had tried heterodox measures they would have said I need orthodox," Mr Cardoso admits that he may have to take further measures. "I never committed myself to reduce inflation with this programe – I just promised to put the house in order".

But he insists that Brazil's situation is better than it looks: "We've become very defeatist but, in fact, if you ignore public accounts, then our economy is going well. The harvest is good, exports are $40bn, reserves are over $20bn, companies are well-capitalised and the economy should grow 3.5 per cent this year".

He is confident of securing a new accord with the International Monetary Fund, saying, "aren't we finally doing exactly what they ask?"

Mr Cardoso denies he has presidential ambitions, saying he would prefer to return to Cambridge University, where he was once a professor. Pointing out that he never even wanted to be finance minister, he asks: "If I really managed to clear up this mess, would I need to do anything else in my life?"

Peru plea for aid on poverty

By Sally Bowen in Lima

Osvaldo Chávez, aged 11, sweeps in front of his home by the garbage-clogged River Rimac in Lima

A PERUVIAN delegation headed by Mr Jorge Camet, economy minister, hopes by the end of today to have secured pledges totalling $100m to support the government's stepped-up poverty alleviation programme.

Peruvian officials in Paris are lobbying representatives from 10 industrialised countries and multilateral organisations with the message that the heaviest costs of the country's stabilisation and structural adjustment programme, applied since 1990, have fallen upon Peru's poorest. Over 12m Peruvians (53 per cent of the population) are now classified as in "critical" poverty. In some rural areas, that percentage is higher.

The infant mortality rate, at 82 per 1,000 live births, is the third highest in Latin America, behind only Bolivia and Haiti; 49 per cent of Peruvian children under the age of five are suffering malnutrition, and 9,000 a year die of it. In many rural areas, only 20 per cent of houses have piped water and sewage. All this has fuelled disease, particularly the recent cholera epidemic.

Current poverty alleviation efforts involve a social fund known as Foncodes. It finances small infrastructure projects, mostly for drinking water and sewage installations, and for building simple classrooms and health posts in outlying communities.

With Peru's economy now on a more even keel, the government of President Alberto Fujimori is budgeting between 1 and 1.5 per cent of annual gross domestic product for poverty alleviation. Foncodes is planned to receive the equivalent of $500m between now and 1995 – $200m from the treasury, $200m in multilateral credits and $100m in donations.

● Peru moved a step nearer its target of a single, 15 per cent import tariff last week with cuts in duties on a range of luxury goods from 25 per cent to 15 per cent. About 97 per cent of all imports now enter Peru at 15 per cent.

The move was largely aimed at curbing continued high levels of smuggling. Once sales and luxury tax is added to the 15 per cent import duty, total tax may reach 60 per cent, making smuggling attractive.

US Supreme Court upholds policy of forcibly returning refugees to Haiti

By Jurek Martin in Washington

THE US Supreme Court yesterday upheld the policy of successive US administrations authorising the forcible return of would-be refugees from Haiti intercepted on the high seas.

Justice John Paul Stevens, for the 8:1 court majority, said the policy did not violate US immigration policy or any international treaty. Justice Harry Blackmun, the sole dissenter, argued that the law was clear – "vulnerable refugees shall not be returned."

The court ruling ends one phase of the controversy over Haitian refugees. President Bill Clinton came to office promising to reverse the exclusionary policies of his predecessor, but changed his mind, citing the same humanitarian reasons as had President George Bush – specifically the risk that many Haitians in unseaworthy vessels would be lost at sea. An estimated 37,000 Haitians have sought asylum in the US.

However, two weeks ago, the Clinton administration softened its approach and decided not to challenge a lower federal court order that about 150 Haitians infected with the Aids virus be released from the US naval base at Guantánamo, Cuba, and be allowed into the US pending processing of asylum applications.

Simultaneously, the US has supported international mediation designed to restore democracy to Haiti following the military overthrow of President Jean-Bertrand Aristide in 1991. Further sanctions against the military regime in Port-au-Prince, including an oil embargo, may be enacted by the UN this week.

To some degree, the case of Haiti has been superseded by concerns over a new wave of illegal immigration from China. Last Friday, Mr Clinton, appointed an expert in the field, Ms Doris Meissner, commissioner of the much criticised Immigration and Naturalisation Service, and promised new initiatives to halt the smuggling into the US of illegal aliens.

These will be aimed partly at the criminal syndicates apparently responsible for shipping poor Chinese to the US. They will also include speedier handling of asylum cases and possibly the detention of suspected illegal immigrants pending resolution of their cases.

Guatemala's new president predicts end to civil war

GUATEMALA'S new president, Mr Ramiro de León, has announced a campaign against corruption and poverty, and predicted an end to the Central American nation's 32-year-old civil war, Reuter reports from Guatemala City.

In his first national television address since taking office on June 6, Mr de León announced on Sunday the formation of a social investment fund and said the finance ministry would redirect government spending to battle rural poverty and finance a "massive" literacy campaign.

Mr de León was elected by Congress five days after the ousting of President Jorge Serrano on June 1, and will serve until January 1996, when Mr Serrano's five-year term was due to end.

Mr Serrano was toppled one week after he had seized near-dictatorial powers, and Mr de León's interim presidency is seen as crucial for putting Guatemala's young democracy back on track.

Pledging to fire and prosecute government officials found guilty of corruption, Mr de León said programmes to eradicate poverty, human rights abuses and injustice, would win support from the country's leftist guerrillas.

EC dumping of farm produce upsets Hungary

By Nicholas Denton in Budapest

EUROPEAN Community leaders are to decide at their Copenhagen summit this week to speed the common market's opening to central-east European farm produce.

But the more pressing issue is unfair dumping of western grain and meat in Russia and the Ukraine which is crowding out exports from Hungary, Poland, Romania and Bulgaria, according to a Budapest official.

"For east European agriculture the real problem is here, the real problem is not the EC," said Mr Gyorgy Rasko, state secretary at the Agriculture Ministry of Hungary, eastern Europe's largest food exporter.

Budapest welcomed the EC's "very fair offer" to modify its association agreements with the central-east European countries and shorten the five-year timetable for lowering farm trade barriers.

Hungary claims, however, that French wheat is sold at the Baltic ports at $90 (£60) a tonne which could not even cover half the costs. Germany has also increased subsidised exports of beef to the former Soviet Union while Hungarian deliveries of beef have fallen to a tenth of their 1980s level.

"We cannot compete at dumping prices," said Mr Rasko, citing Hungary's budget problems and low agricultural subsidies. The Organisation for Economic Co-operation and Development estimates a "producer subsidy equivalent" for the EC of 45 per cent, while Hungary's has fallen from more than 30 per cent in the 1980s to 8 per cent in 1992 and a forecast 6 per cent this year.

The former Soviet satellites have suffered drops in production of 25-40 per cent from the 1980s level as domestic demand has fallen with their economies and subsidised western producers have muscled in to markets in Russia and Ukraine.

Concessions envisaged on access to the EC market cannot immediately compensate for lost market share in Russia and Ukraine because central-east European farmers cannot shift deliveries smoothly.

Producers are strong in the mass commodities which they sold in the former Soviet Union, and processed food is generally of too low a quality to make much headway in western Europe.

Kuwait chemicals plant to go ahead

By Paul Abrahams

KUWAIT has signed an agreement with Union Carbide of the US to construct and operate a KD700m (£1.5bn) petrochemical complex at Shuaiba, near Kuwait City.

The complex, due to be completed by 1997, will be the most important petrochemicals complex in the country. It is expected to have an annual ethylene capacity of about 650,000 tonnes a year. Production will be based on ethane.

Downstream capacity will include 350,000 tonnes a year of ethylene glycol and 450,000 tonnes a year of polyethylene.

The complex will present further difficulties for Europe's hard-pressed petrochemicals industry, where there is overcapacity and most plants are operating at a loss. World average ethylene capacity for 1993 is estimated at 73.9m tonnes, while demand stands at 63.3m tonnes, according to Chemical Marketing Associates, the Houston-based consultants.

The joint venture, which took more than a year to negotiate, will be 45 per cent owned by Kuwait's Petrochemical Industries Company, 45 per cent by Union Carbide and 10 per cent by private Kuwaiti investors.

Thais make a mess of their muddling

Motorway contract row unsettles investors, write **William Barnes** and **Victor Mallet**

THE THAI government's decision recently to flout a $1bn contract for an elevated motorway in Bangkok has unsettled international bankers and will make it harder to finance planned infrastructure projects worth at least $30bn, bankers and businessmen say.

The row over the so-called "Second-Stage Expressway" has undermined the reputation of Thai technocrats for being able to muddle their way through the country's widespread corruption and near-impenetrable bureaucracy to keep the economy thriving.

Bangkok Expressway Co Ltd (BECL), a construction consortium led by Kumagai Gumi of Japan and financed by Thai and foreign banks, signed a 30-year contract to build and operate the new road with the state-owned Expressway and Rapid Transit Authority (ETA) in 1988.

With the first 20km section of the road all but complete, consortium members and lenders accuse the government of breaching the agreement on several counts, especially by refusing to allow the operators to charge the Bt30 (78 pence) toll for cars clearly specified in the contract; the government says the toll will be 20 baht.

"If we had known that these would have been the terms of the contract there would have been no deal and no money. It's as simple as that," said one foreign banker involved in the deal.

"No one plays around with project financing deals, not the Philippines, not China, no one, because they know that if they do, then at the very least it will cost the country more to get funding in the future," he said.

Thailand has a record of military coups and rapid changes of government, and projects approved by one government have often been dismissed or altered by the next on the grounds of corruption or unsuitability.

But the expressway decision is unusual because the breach of contract is so blatant and because it has infuriated the Japanese, the leading foreign investors in Thailand. For once the Thais cannot claim that the dispute results from the failure of inflexible westerners to understand the "Asian way" of doing business.

Even before the second-stage expressway row came to a head another Japanese construction group, Obayashi, decided to throw in the towel after more than two years of negotiations to build Bangkok's third-stage expressway.

Bankers to Obayashi said the company was bewildered by the number of government agencies responsible for road transport, which forestalled any agreement on a route for the road and made it impossible to raise money for the purchase of land.

Meanwhile, the $500m, two-thirds completed Don Muang tollway – which runs between central Bangkok and the airport – is running into financing problems because its bankers are loath to lend more money for cost overruns during a continuous battle with the government over the terms of the contract.

"The government of Thailand is considered less and less a reliable partner and that makes it difficult to get money," says Mr Hans Roth, Don Muang Tollway's general manager.

Foreign bankers have also given a lukewarm reception to a project by Tanayong, a local property company, to arrange the building of an $880m elevated railway. Mr Chai Na Sylvanta, vice-president of Bangkok Bank and financial consultant to the project, has been quoted as saying that foreign bankers will not lend money to the scheme until the government honours the second-stage expressway contract.

With the Thai economy growing at more than 7 per cent a year, billions more dollars from foreign and local investors are needed for everything from power stations and telephone lines to sewage works (see table).

A deal to open the second-stage expressway is likely to be worked out in the end – one possibility is that the Thai banks will buy out the foreign investors – but much damage to Thailand's reputation has already been done.

Senior government ministers admit they are failing to adhere to the letter of the contract, but remain unrepentant. They say traffic flows will be double the original predictions and insist that they will protect BECL, and therefore the foreign creditors, by giving the consortium its original cut: Bt18 per car or 60 per cent of the agreed Bt30 toll.

But with the toll at Bt20, that leaves only Bt2 per car for the ETA, crippling for an organisation which is supposed to buy more land, co-operate with BECL for future sections of the new expressway and repay previous loans to Japanese and other creditors. The ETA would have to be subsidised by the state.

The coalition government's justification for breaking the contract is that Bangkok's motorists would be angered by high toll fees, but most of its MPs were elected on a platform of helping the poor and redistributing wealth to the provinces.

Apparently to appease the Palang Dharma (Moral Force) party, which is part of the coalition and has strong support in the capital, the government has decided to make taxpayers throughout the country help pay for the new road. It has managed to infuriate foreign investors in the process.

SEVENTH NATIONAL PLAN INFRASTRUCTURE PROJECTS – 1992-1996

Project	Estimated cost ($m)	Duration
All energy-related projects	11,071	1992-96
Bangkok 2m telephone lines	3,922	1992-96
Nong Ngu Hao International Airport	3,200	By 2000
Hopewell elevated railway (60km)	3,137	1991-01
Provincial 1m telephone lines	1,261	1992-96
MRTA Skytrain (19km)	1,604	By 1997
Second stage expressway (40.5km)	1,176	1991-95
Provincial highways	1,145	1990-95
Tanayong electric train	800	1992-96
Third stage expressway (31km)	878	1995-00
Ekamai-Ramindra expressway (18.7km)	412	1994-96
Don Muang tollway	408	1991-94
Optical fibre network	373	1992-93
Thailand national satellite project	216	1993

Source: Board of Investment Review, Vol 2 No 1

Chinese delegation on Gulf tour

By Lynne O'Donnell in Beijing

MR LI LANQING, a Chinese vice-premier, has begun a tour of the Gulf region at the head of a delegation aimed at cementing trade ties that last year were worth more than $2bn (£1.3bn).

Mr Li will be accompanied by officials of some of China's leading trading and industrial companies, including the China National Petroleum Engineering Construction Corporation.

Mr Li told the official Business Weekly that his delegation would meet counterparts in Iran and member states of the Gulf Co-operation Council to discuss trade, labour co-operation, contract engineering and investment.

The paper quoted figures from China's Ministry of Foreign Trade and Economic Co-operation showing trade between China and members of the GCC – the United Arab Emirates, Saudi Arabia, Oman, Qatar, Bahrain and Kuwait – grew by more than 20 per cent in the first quarter compared with the same period last year.

China's exports to GCC states in 1992 were worth $1.1bn; imports reached $600m. Trade with Iran topped $400m. Mr Li told Business Weekly that current trade volume was small compared with "the huge potential". China's need for oil products matched market opportunities in Gulf states for textiles, foodstuffs, light industrial goods, technology and machinery manufactured in China, he said.

● China announced a $30bn shopping list for technology imports yesterday which it hopes will boost its drive to join the General Agreement on Tariffs and Trade (Gatt), Reuter reports from Beijing.

Mr Liu Shanzai, vice-minister of foreign trade and economic co-operation, said the import buying plan would stretch over the next seven years and include equipment for projects in agriculture, infrastructure and energy.

"This is a concrete step by the Chinese government to enhance the transparency of foreign trade policy in line with the requirement of resuming contracting party status in Gatt," Mr Liu told reporters.

The announcement, made jointly by the ministry and the State Planning Commission, was the first time Beijing has publicised state buying plans so far in advance.

Mr Liu said the import scheme was valued at about $30bn, most of which would be funnelled into purchases for capital construction projects and technological renovation.

The ministry plan covers 210 projects ranging from irrigation networks and hydropower stations to roads, harbours, airports, optical fibre communications systems and education programmes.

Europeans provide 3m US jobs

By Nancy Dunne in Washington

EUROPEAN affiliates in the US provide jobs for 2.9m Americans, more than the subsidiaries of all other nations combined, according to a recent report by the Washington-based European-American Chamber of Commerce. The affiliates account for 7 per cent of all US manufacturing jobs, and pay higher wages on average than US companies.

A boom in employment by Europe's American affiliates in the 1980s drew little attention compared with the alarm raised by Japanese takeovers and investment. By the end of the decade, European-owned companies employed more than 10 per cent of the labour force in New Jersey, West Virginia, South Carolina and Maryland. At the same time, employment by European subsidiaries has surged in California, Texas, Indiana and Florida.

Despite the benefits of European investment, the three-year-old European-American Chamber and other business groups are kept busy countering discriminatory measures in Congress, where anti-foreigner sentiment has been subdued but not eradicated with the fallin Japanese investment.

"There is still concern that the US is not in control of its own economic destiny," said Mr Willard Berry, president of the Chamber. "But those who propose policies that upset the European-American relationship may find that they are biting the hand that feeds their fellow Americans."

Many European affiliates have been in the US so long that their American customers are barely aware of their overseas ownership. However, Congress has repeatedly demonstrated its reluctance to share with foreign offspring the benefits it grants to American companies. Nor is it above employing the benefits as leverage to force foreign markets open.

The National Co-operative Production Act of 1993, passed this month, relaxes antitrust treatment for companies doing joint production ventures. American subsidiaries of foreign companies are eligible for this benefit only if the principal facilities of the production joint ventures are in the US. The act also makes national treatment conditional on similar opportunities being made available in the country of the parent company.

Foreign business lobbyists worry that the act has set a dangerous precedent. They are particularly concerned that their companies will lose out in the Clinton administration's much touted business-private sector relationship and the millions of dollars of government aid to be poured into industry consortia for research and development.

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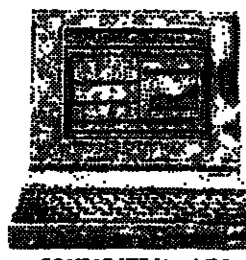

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Illness of key cabinet member seen as possibly damaging to government in difficult times

Heseltine suffers heart attack on visit to Italy

By Alison Smith in London and Robert Graham in Rome

MR MICHAEL HESELTINE suffered a heart attack yesterday, depriving the government temporarily of one of its most powerful figures.

Mr Heseltine had been on a two-day holiday in Venice with his wife Anne, when he complained of chest pains, shortly before 3am yesterday. He was admitted to hospital and was yesterday undergoing tests. He was said to be sitting up and talking.

His illness is a further blow for the government, which has recently suffered a string of misfortunes and political disasters throughout which Mr Heseltine had proved a powerful advocate.

The trade and industry secretary had been due to finish a set-piece House of Commons debate tonight on the difficult subject of Tory party funding, and party managers were relying on his oratorical ability to unite and rouse the Conservative rank and file.

The debate will now be concluded by Mr Tony Newton, the leader of the Commons, who lacks Mr Heseltine's skill at rallying the party.

Downing Street said that Mr John Major had been told about Mr Heseltine's illness early yesterday, and had sent flowers and good wishes for a speedy recovery.

In Copenhagen for the European Community summit, Mr Major said:"I have sent Michael a message. I hope he will soon be well and will soon be back at work."

At Westminster, colleagues were shocked by the news, since Mr Heseltine was widely known for his resilience and stamina under pressure during a long political career.

Mr Heseltine's official diary has been cleared for the rest of this week, with his junior ministers sharing extra work between them. But no one expects him to be able to resume the full range of his duties immediately after that.

Any longer term decisions about his official work will await the results of further tests on the 60-year-old minister. Mr Tim Sainsbury, the trade minister, is the next most senior minister at the department and is expected to represent Mr Heseltine at ministerial meetings for the time being.

Hospital officials in Venice last night said that the condition of Mr Michael Heseltine presented no serious complications following a minor heart attack on Sunday night.

A spokesman for Venice's main city hospital said Mr Heseltine was recovering in an intensive care unit of their coronary department. But the spokesman ruled out any suggestion that the heart attack was serious or that there was cause for concern about the minister's health.

Neither the hospital or British embassy officials in Rome were able to say how long Mr Heseltine was likely to spend in hospital.

Two British doctors are said to have visited Mr Heseltine in hospital yesterday afternoon. His friends hope that he may be able to return to the UK later this week.

Pressure grows for reform of UK political funding

By Philip Stephens and David Owen

MR JOHN MAJOR'S pointed refusal to offer public backing for Mr Michael Mates last night reinforced the impression that the prime minister is now ready to accept the resignation of his embattled Northern Ireland minister.

Mr Mates is under pressure over his links with the fugitive financier Mr Asil Nadir, while his party is being attacked by the opposition over its system of funding – a system which allowed substantial donations by Mr Nadir.

Last night Mr Major is understood to have talked to Mr Richard Ryder, chief whip, in charge of party discipline, about the "mood of the party" on the issue.

With few Conservative backbenchers prepared to support Mr Mates in public or in private, the feeling was growing at Westminster that the minister's future may be settled when the powerful 1922 executive of Tory rank and file MPs meets on Thursday, if it has not been settled before.

Labour will use a full-length debate on Tory finances today to endeavour to keep up the pressure by claiming that the revelations that have so far emerged represent just the tip of the iceberg. Mr Robin Cook, trade spokesman, said that it was not enough simply to throw Mr Mates to the wolves.

Meanwhile, senior Tory backbenchers added their voices to calls for reform of the law governing the way in which large donations are declared. Mr John Biffen, a former cabinet minister, said he favoured requiring donations to be registered by the recipient rather than the donor.

As the cross-party home affairs select committee of MPs continued its inquiry into the funding of political parties, the Liberal Democrats argued for the introduction of state funding "broadly related" to the votes a party ained in the previous general election.

"The introduction of state funding should go hand in hand with curbs on the national expenditure of parties in elections," the party said.

Sir Norman Fowler, the Tory party chairman, tried to carry the attack to Labour: "We will return any money we have received which is proven to be stolen. Will Labour promise the same if the tens of thousands of pounds John Smith admits they received from Robert Maxwell prove to be stolen?".

A plague on all our houses

As corruption scandals hit Europe and Japan, **David Marsh** examines the rules covering disclosure of political donations

The ancient plague of corruption has seldom claimed a wider crop of victims around the industrialised world. The entanglement of businessmen and politicians in dubious cases of party financing is making headlines not just in Britain, but also in the rest of Europe and Japan. Public opinion appears to have become less tolerant of networks of patronage and influence linking big companies and political institutions.

A long-simmering controversy over illicit donations is one reason for the downfall of Mr Kiichi Miyazawa, the Japanese prime minister, who was forced on Friday to call an early election.

In France, the Socialist party's involvement in fraud and illicit funding contributed to the party's crushing election defeat in March.

In Italy, big business has provided the ruling Christian Democrat and Socialist parties with hidden funding through kickbacks on public sector contracts. Thanks above all to the judiciary's new-found tenacity during the last 18 months, this system of institutionalised corruption has now been exposed.

Different countries react in different ways to evidence of financial malpractice. In a referendum in April, Italians voted to ban state financing of political parties as a way of diminishing corrupt influences.

The UK, by contrast, is one of the few European countries where political parties have no general recourse to public finance. The opposition Labour party has been urging for some time that parties should be given public cash to avoid undue dependence on outside donors, claiming the present opaque British system is "an open invitation to corruption".

In theory, most other industrialised countries practise more rigorous rules on disclosure of political donations than those in force in Britain. However, the regulations are often applied with a notable absence of rigour.

In Japan, political parties and organisations have to make an annual report of income and spending. Contributors who provide more than Y1m annually – Y10,000 when the donor itself is a political party – must be named.

The reports are also supposed to name recipients of more than Y50,000 a year. Clearly, however, there are plenty of loopholes.

Mr Shin Kanemaru, the former paymaster of Japan's ruling Liberal Democratic party, was charged earlier this year with evading taxes linked to receipt of funds from construction companies. Yesterday, an official report in Tokyo said he failed to declare Y1.85bn ($16.7m) he received in kickbacks and donations from companies seeking favours.

In 1954 Germany became the first European country to introduce public financing for political parties. After scandals at the beginning of the 1980s surrounding clandestine donations by companies led by the Flick industrial group, German parties are now required by law to publish annual reports listing individual donors providing more than DM20,000 a year.

However, many Germans believe the shift towards state financing has been overdone. State hand-outs to the parties are now estimated at DM1.4bn ($840m) a year. In reaction to public complaints at such lavishness, a commission under President Richard von Weizsäcker recently proposed tighter limits on access to state funds.

In Italy, Italian parties are legally obliged to provide annual accounts. However, these substantially understate the true level of their financial transactions. Italian parties' official spending figure of L306bn ($203m) last year (of which just over one-third came from the public purse) is thought to represent only about 10 per cent of expenditures on all forms of party political activity.

In France, laws on disclosure have been tightened, with all parties now obliged to furnish full accounts. The Socialist party is believed to have been involved in large-scale illicit money-raising schemes up until the early 1990s. However, such affairs have not been limited simply to the left. Mr François Léotard, a prominent conservative who is now defence minister, was caught up last year in allegations linked to land purchases in his constituency.

In Spain, donations by individuals or corporations are subject to a ceiling of Pta1m. Parties rely for a substantial portion of their funding on quarterly payments from the state, depending on the parliamentary representation.

In recent months, however, evidence has surfaced of how the rules can be sidestepped. Spanish tax inspectors have uncovered dubious contributions of Pta1bn ($7.9m) received by the Barcelona-based Filesa group, some of which appear to have been channelled to the Socialist party to cover its expenses in the 1989 general elections.

Britain in brief

Aiwa in big expansion in south Wales

Aiwa (UK), the subsidiary of the Japanese audio and video equipment company, is to double the size of its south Wales plant in a £27m expansion which is expected to create 480 jobs.

The plant, at Crumlin, Gwent, is Aiwa's only European factory but there was competition for the investment from other countries, especially Malaysia. It is the single biggest Japanese investment project in Wales for more than two years.

The investment, announced yesterday, is backed by regional selective assistance from the Welsh office and the Welsh Development Agency.

Union warns Nestlé on hours

The Amalgamated Engineering and Electrical Union warned that Nestlé could be heading for confrontation if it tries to force the introduction of annualised hours at its Findus frozen foods plant in Newcastle.

The plant, one of 26 UK Nestlé factories, is the first in the country at which Nestlé has proposed moving from conventional shiftworking to an annualised hours system.

A Nestlé spokesman declined to discuss the proposals in detail but said: "We are having operational changes to cut costs and increase manufacturing flexibility."

First RSI case settled

The first case involving a journalist suffering from RSI - repetitive strain injury - has been settled out of court.

Mr Mark Woods, of solicitors Stephens Innocent, a law firm representing journalists suffering from the disorder, said Mr Paul Allonby, a former journalist on the Sunderland Echo had received an out-of-court payment.

Mr Allonby, who has not suffered permanent disability and has since moved on to a better paid job, received £3,500 - £500 towards loss of wages.

Texaco joins PRT debate

Texaco added its weight to the lobby against the government's proposed changes to North Sea taxes yesterday in a letter to MPs.

Mr Don Bennett, managing director of the US oil company's UK arm, said that amendments to the changes suggested by the Treasury last week were unnecessarily expensive and would not have their stated desired effect of saving jobs in the service sector.

The company's letter came as the finance committee prepared to debate the government's changes to Petroleum Revenue Taxes today.

The government has proposed cutting the PRT rate from 75 per cent to 50 per cent and abolishing tax relief on exploration work. The Treasury has suggested an amendment that would provide short-term aid for the worst affected companies. British Petroleum and Shell along with other large oil companies have supported the PRT changes.

Shop rents stop falling

Shop rents have stopped falling and are likely to rise by at least 5 per cent next year, according to a study by Erdman Lewis, property consultants, which forecasts that the out of town sector will see the sharpest rent increases – 7 per cent in 1993 and 1994.

US supplier to open plant

Johnson Controls, the US motor components supplier, is setting up its second factory in the UK with a $10m investment in a new plant to make seat foam pads at Wednesbury, West Midlands. The new plant, opening in July 1994, will employ 130 people initially and 160 after a year.

TRADE FIGURES

Imports revive worries over trade deficit

By Peter Marsh, Economics Correspondent

IMPORT volumes from countries outside the European Community rose sharply at an underlying level last month, reviving worries that the trade deficit might worsen in the later stages of a recovery.

Excluding oil and high-ticket items such as gems and aircraft which distort trade patterns, seasonally adjusted import volumes rose 0.6 per cent in May compared with April, the Central Statistical Office said yesterday.

Underlying export volumes to countries outside the EC slipped back slightly in May though remain at high levels, thanks to many types of UK manufactured goods being more competitively priced due to sterling's devaluation.

In terms of value, the overall trade account last month benefited from the first non-EC monthly surplus on oil for five years and also from high exports of erratic items.

These trends pushed the trade deficit with non-EC nations to £769m last month, down from a revised £901m in April and the lowest deficit since September.

On an underlying basis, the trade deficit last month for nations outside the EC was £846m, up from £785m in April. Trade figures for the EC are not available at present while statisticians iron out a new system for collecting the data.

In volume terms, the underlying level of non-EC imports in the three months ending May 31 was up 2.5 per cent compared to the previous three months, and up 14 per cent on the same time last year.

On the same basis, exports in the most recent three month period were up 6 per cent compared to the three months ending in February, and 12 per cent up on a year ago.

Last month, underlying export volumes slipped 3 per cent on a high April figure described as "a bit of freak" by government statisticians.

The better export performance of many UK companies was behind a small £5m surplus on trade with North America last month, after an £85m surplus in April.

This was against the trend of recent years which have normally featured deficits on this part of the trade account. Last month also saw a £5m surplus on non-EC oil trade.

In the three months to the end of May, non-EC exports of manufactured goods totalled £11.42bn, 7 per cent up on the £10.67bn for the previous three months. Over the same period, imports of manufactured items have fallen 2 per cent from £12.9bn to £12.67bn.

These developments have pushed down the trade deficit on such goods from £2.23bn in the three months to the end of February to £1.25bn in the latest three month period.

Even so, due to the steep increase in imports the past year, the deficit for the last three months still stands higher than for any quarter last year except for the October-December period.

Over the whole of last year the non-EC deficit on manufactured goods came to £4.64bn, from £2.89bn the year before.

● Optimism among UK consumers about the state of the economy took a tumble in the first half of this month, according to the latest consumer confidence survey from Gallup, the opinion poll company, writes Peter Norman.

The survey, carried out between June 2 and 15 for the European Commission, found that only 30 per cent of the 1,981 adults interviewed expected Britain's general economic situation would improve over the next 12 months while 31 per cent thought it would worsen.

The resulting balance of minus 1 measuring consumer confidence was 22 percentage points below May's result.

Spinners bowl Australia to win

Exit Chris Lewis, with a pat on the back from Alec Stewart, while Australia celebrate at Lord's

Spinners Tim May and Shane Warne bowled Australia to a crushing victory over England, and a 2-0 series lead, in the second Ashes test at Lord's yesterday.

Off-spinner May and leg-spinner Warne shared eight wickets as England crashed by an innings and 62 runs on the fifth and final day.

May captured four for 81 and Warne four for 102 as England were all out for 365 shortly before tea, having followed on 427 behind.

Australia's triumph makes them odds on favourites to retain the Ashes in the six-test series against an England side who have stumbled from one wretched performance to another during the past year.

Graham Gooch's team have now lost their last seven tests, five under his captaincy and two with Alec Stewart in charge, and face the need for significant changes to halt one of England's worst sequences in modern times. Resuming at the overnight 237 for three, England lost Mike Gatting for 59 early on and after that only Graeme Hick and Stewart offered resistance.

LABOUR MARKET LEGISLATION

Employment bill is child of political agenda

By David Goodhart, Labour Editor

THE Trade Union Reform and Employment Rights Bill - the government's eighth major piece of labour market legislation - which has just completed its passage through parliament, is the child of a political rather than a business agenda.

But it does continue the main themes of previous legislation - labour market deregulation and restrictions on the behaviour of trade unions.

The most controversial piece of deregulation is the abolition of wages councils, which set minimum pay levels in certain sectors.

The abolition of the councils makes Britain the only European Community country without some form of minimum wage protection either through legislation or collective bargaining.

The law, which will get royal assent in July , departs from earlier legislation in two respects. First, it contains highly detailed regulation of the daily running of unions, which remain voluntary.

Although previous legislation has required unions to change their behaviour - in relation to strike ballots for example - the new law includes such things as a requirement to notify the Certification Officer (who regulates unions) of the pay of top officials and gives the Officer new powers to investigate union finances.

The justification was provided by the Lightman Inquiry into the National Union of Mineworkers, while further rulings on how to conduct elections arose from ballot-rigging in the 1990 TGWU executive elections.

The second main departure is found in the reversal of the long-standing assumption that collective bargaining is to be encouraged. The requirement of Acas, the conciliation service, to promote collective bargaining has been dropped, and a late amendment has made it possible for employers to offer inducements to employees to accept individual contracts.

The government policy paper, on which the law is based, hinted at the government's interest in a broader framework of individual rights at work to supersede collective bargaining. This is supported by some employers groups. But apart from integrating EC law, it is unlikely that any major legislation will emerge in this area for some time.

A-Z of the new law for employers, workers

The Trade Union Reform and Employment Bill continues the trends of market deregulation and trade union restriction. **Diane Summers** explains what it means in the workplace and on the board

Internal union affairs: Rules tightened on how union members vote on the use of political funds, mergers with other unions, and for executive posts. Greater use of independent scrutineers in elections. No public funding of ballots after April 1 1996.

Pay and benefits of union leaders to be notified annually to Certification Officer, who will have new powers to investigate finances. Union members will be entitled to written information on finances.

Membership: Individuals will have the right to join the union of their choice unless membership is limited to an occupation or skill. Unions will no longer be able to exclude individuals because of "no poaching" inter-union agreements, such as the TUC Bridlington rules.

Employers will be able to pay more to individuals to secure changes in bargaining arrangements, allowing employers to pay extra to those who sign personal contracts and give up collective bargaining.

Deduction of dues: Employers will have to get written agreement at least every three years from individuals if union subscriptions are to be deducted from wages under "check-off" arrangements. Increases in deductions will have to be notified at least a month in advance by employers, accompanied by a reminder that they can withdraw from check-off at any point.

Industrial action: Union industrial action ballots will have to be conducted fully by post. Where 50 or more are voting, ballot will have to be independently scrutinised.

Unions will have to give employers at least seven days written notice of intention to ballot on industrial action, plus a description of which workers are to be balloted. Employers must get a sample voting paper and details of the result. Seven days written notice will have to be given by unions of intended industrial action, dates of action and description of which workers are likely to be involved.

Any individual deprived of goods or services by unlawful industrial action will be able to bring legal proceeding to restrain the action.

Maternity leave and rights: Pregnant employees, regardless of length of service or hours worked, will have right to 14 weeks maternity leave. All women to be protected against dismissal on maternity-related grounds.

Changes during passage of bill include rules affecting the notification required by a woman of her intention to return to work.

Wages councils: Remaining wages councils, which fix minimum pay, are to be abolished. Makes Britain only EC country without some form of minimum wage protection.

Victimisation: All employees will be able to go to an industrial tribunal if dismissed for carrying out health and safety duties, or leaving a work area if in imminent danger. Employees will have a new right to complain to an industrial tribunal if dismissed for asserting statutory employment protection rights.

Transfer and redundancy: Transfer of undertakings regulations will be extended to include non-commercial undertakings. Any employee refusing to transfer will be deemed to have left the job voluntarily.

Tribunals: Chairmen will be able to sit without lay members in some circumstances and hear breach of contract of employment. Identities of parties in cases involving sexual misconduct are to be protected.

Careers service: Responsibility for careers service moved from local education authorities to secretary of state.

Written employment particulars: After two months in a job an employee must be given a written statement of main employment particulars (is currently 13 weeks after starting job). Many particulars in collective agreements, including hours and holidays, will have to be spelled out to individuals. Changes must be notified within a month. All employees working more than eight hours a week will be entitled to an itemised pay statement. In companies with fewer than 20 employees, those working 8-16 hours will have to complete five years' qualifying service before entitled.

Charles Batchelor looks at new export restrictions on machinery, in a continuing series on red tape

Caught in the crossfire

Cutting red tape

THE Cardinal Broach Company, a manufacturer of specialist cutting tools, has spent the past few years building up exports. But in the wake of the Gulf war and the Matrix-Churchill "super gun" affair, the government tightened up the rules on the export of machinery that could be used to make armaments. These tough new restrictions could undermine that hard-won business.

The need to obtain approval for exports threatens to stretch delivery times from between six and eight weeks to 16 weeks and more, says Glyn Ridley, managing director of the Ratby, Leicestershire-based company.

Two recent shipments to long-established customers were impounded by Customs & Excise at Heathrow Airport on the grounds that export licences were needed under the Export of Goods (Control) Order 1992.

"I can't believe these regulations were designed to stop companies like ourselves," says Ridley, who led a buy-out of Cardinal Broach from Brooke Tool Engineering last February. Cardinal Broach exports 20 per cent of its £5.5m turnover and employs 128 people in Ratby and Biggleswade.

Most export orders won by Cardinal Broach are worth less than £5,000 – a large order might amount to £20,000 – so the paperwork involved in applying for licences every time would be a nightmare, comments Ridley.

"Our customers will buy from other European Community competitors who do not subject them to the need for extraneous documentation," he warns. "The essence of exporting is to make it as simple as possible for the customer to buy from you."

The problem for Cardinal Broach is that its tools, which fit on to machine tools to cut intricate forms in high volumes, can be used in a range of applications, from the food industry to small arms manufacture.

It sells to 34 countries, many of them on the list of those covered by the legislation, and to companies in the fields of aircraft engine manufacture, vehicles, general engineering and armaments.

Sales depend on providing a fast response to customer inquiries and a high level of service, says Ridley. The company responds to customer inquiries within two days and delivery is normally made within six to eight weeks.

Under the new rules, Cardinal Broach must ask its customers to supply an end-use certificate, explaining what the tools will be used for, and then apply to the DTI for an export licence.

Only when this has been granted can it start to manufacture the consignment.

Coping with this delay would not pose serious problems on products such as machine tools, where there can be a lead time of several months. But on consumable cutting tools, which are used and then discarded, and where delivery times are very short, it can strangle business.

"The delay will effectively destroy all our previous work in developing these markets," says Ridley, who has complained to Michael Heseltine, trade and industry secretary.

Glyn Ridley: 'I can't believe these regulations were designed to stop companies like ourselves'

Cardinal Broach claims market leadership in the UK but faces tough competition from Germany, Italy, France, Spain, the US and the Far East.

The two consignments held up at Heathrow are destined for projects where the main supplier, one UK and the other German, have already obtained export approval, says Ridley.

He suggests that a solution would be to grant long-term export approvals for particular projects which would avoid suppliers having to reapply for permission for each shipment.

"We have developed overseas markets in recent years, often at quite considerable financial cost," Ridley comments.

"We were happy to take this expense on board, thinking they would result in a stronger company with a wider customer base. I can't believe the legislation was designed to catch companies like us."

● The Department of Trade and Industry said that it could provide initial guidance to exporters on whether controls apply in particular countries.

Once an order has been obtained, the more information the exporter can provide the more quickly the case can be considered.

If a company obtains repeat orders it may not need to apply for an export licence each time, the DTI said.

Previous articles in this series appeared on May 11, April 5, February 9, January 26 and December 15.

■ The Growing Business Page is highlighting businesses entrapped by red tape. It will award a bottle of Laurent-Perrier pink champagne to each one featured.

The owner-managers of independent businesses are invited to describe their experiences – on no more than two sides of A4 please.

Letters should be addressed to:
Charles Batchelor,
Growing Business Correspondent,
Financial Times,
Number One Southwark Bridge
London SE1 9HL
Fax: 071 873 3933

In a Nutshell

The banks' side of the argument

The banks have been heavily criticised over the past two years for their frequently inconsiderate treatment of small businesses. But the banks are businesses too and the failings have not been only on one side.

Understanding Your Bank Manager might be the sub-title of Banking on the 1990s*, a guide from accountants BDO Binder Hamlyn. This is not so much a "how to" guide on negotiating an overdraft but more an explanation of why the banks act as they do.

Once business owners understand how banks work they should be better able to deal with the bank manager and present their case for funding.

**Special Briefing No 83. Publications Department, BDO Binder Hamlyn, 20 Old Bailey, London EC4M 7BH. 11 pages. Free.*

Weighed down by green issues

Is the environment to become the next burden to be placed on small firms? Quality assurance, in the shape of BS5750, has been enthusiastically adopted by many large companies, but is seen as an imposition by some small suppliers who are suddenly required to conform to a new set of rules.

A new handbook, Buying into the Environment*, emphasises the need for a partnership between large companies and their small suppliers. It suggests guidelines for purchasers and suppliers when they are dealing with environmental issues and promotes best practice.

Intended For large and small companies alike, it provides helpful explanations of the legislation, organisations and jargon in this field.

**From Business in the Environment, 8 Stratton Street, London W1X 5FD. Tel: 071 629 1600. 95 pages. £30 plus p&p.*

Pricing policy pays off

Two years ago Megatech Software, a distributor of other people's computer software, was in steep decline. The recession had slashed demand for its products and staff numbers had been cut from 15 to four.

Largely due to an aggressive pricing policy, Megatech has since established itself as number two in the accountancy software market with a system of its own design.

Theo van Dort, founder and managing director of the Wandsworth, south London-based company, had a computing rather than an accounting background. But his experience of using accounts in his own business and of "anglicising" American accounting systems gave him the background to devise TAS Books.

The system and its handbook or "tutorial" were intended to be readily understandable by the small business owner. A feature of the programme is the ease with which changes can be made if an incorrect figure has been entered.

Despite an enthusiastic reception by the computer press TAS Books sold painfully slowly in the first few months after its launch in August 1991. "At a price of £399 we were only giving away demo copies," says Charles Francis, sales and marketing manager.

In desperation Van Dort cut the price to £99. Advertised as £399 system with £300 off, TAS Books began to pick up sales, from 200 in November to 300 in December and 500 in January 1992. The price was attractive but some accountants were still cautious about auditing accounts produced on the system because of its novelty.

To overcome this resistance, Van Dort obtained the recommendation of the Institute of Chartered Accountants in England and Wales for his system last June. Sales resumed their upward trend and have since held at between 800 and 1,000 a month.

Megatech currently ranks second in the accounting packages market alongside larger, long-established companies. It took a 17 per cent share in the first quarter of 1993 after Sage with 56 per cent and before Pegasus with 7.5 per cent, according to Romtec, an independent company which compiles market data. Megatech's sales were £1.2m last year, pre-tax profits £100,000 and staff numbers have risen to 20.

User support can be a significant cost in the computer business. A clearly written manual keeps down the number of customer inquiries but Megatech's five-strong support staff still handle between 650 and 1,000 inquiries a week.

Megatech has held its price at £99, opting to take a smaller margin on high volumes, and selling by mail order. Customers are more confident than a few years ago about buying software through the post and the low price encourages buyers to take a chance. Waverers are encouraged by a 30-day money-back guarantee.

Van Dort says his low-priced package has expanded the market place and not prompted retaliation from his rivals.

Since there are no dealers to promote the package Megatech spends a lot on advertising – £250,000 a year at current rates. The combination of a low price, an innovative product and attention to customer service have brought the company through.

Megatech's decision to slash its price, while reminding customers that its package was originally being sold for much more, appears to have paid off.

But selling on price alone to gain market share can be a dangerous strategy, warns John Winkler of Winkler Marketing, a consultancy. While Megatech's main rivals have not responded by slashing their prices, in other markets price cuts have triggered price wars which has damaged the entire industry.

Once a low-price policy has been adopted it is difficult to change. Van Dort acknowledges that he is now unable to raise the price of TAS Books although new, more highly priced products are planned. Surveys have shown that many companies going into liquidation have previously attempted price cuts, Winkler points out.

It is relative product quality which builds substantial long-term market share, not price cutting, says Winkler. Virgin Airlines is known as a low-price operator but takes pains to provide a high-quality service, he notes.

CB

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PRIVATISATION IN GREECE

INVITATION TO SUBMIT NON-BINDING "LETTERS OF INTENT" FOR THE ACQUISITION OF THE TOTAL ASSETS OF

MINING TRADING AND MANUFACTURING (MEB) S.A.

According to the decision No. 2696/93 of the Athens Court of Appeals, the above mentioned company will be liquidated, following the proceedings of Art. No 46a of Law 1892/90 as it was amended by Law 2000/91, and Alpha Finance A.E. has been appointed special liquidator, Alpha Finance invites all parties interested in acquiring the Total Assets of the Company, to submit non-binding "Letters of Intent" within eighteen (18) days of the publication of this Invitation.

THE COMPANY

MINING TRADING AND MANUFACTURING S.A. (the "Company") is a societe anonyme established in Athens in 1964 and is engaged in magnesite ore mining, distribution of raw magnesite and in the manufacture and distribution of caustic calcined magnesia and dead burnt magnesia. The Company owns a factory and installations as well as two mines (one underground and one open-air), all located in the Mantoudi area of Evia, 150km north of Athens. The installations include among other things, pre-benefication and beneficition facilities, two shaft kilns for the production of caustic calcined magnesia and related machinery. The Company currently employs a staff of 10, mainly guards and maintenance staff.

PROCEDURE

The Total Assets of the Company will be sold through a public auction, according to the proceedings of Art. 46a of L. 1892/90 and the terms and conditions of the auction which will be published in time.

INFORMATION MEMORANDUM

The Liquidator is preparing an "Information Memorandum" describing the Company, its Total Assets and the procedure. Such an Information Memorandum along with other confidential information, will be available for review to those parties who will submit a Letter of Intent and will sign a "Confidentiality Agreement". Site visits will be arranged through Alpha Finance A.E.

LIQUIDATOR

Investors interested in the contemplated transaction should address all their communication, and request additional information regarding the Company and the procedure to Alpha Finance A.E., 5 Merlin St., Athens 106 71, GREECE.
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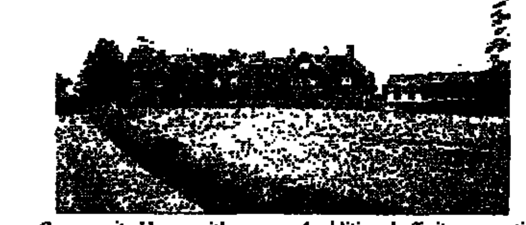

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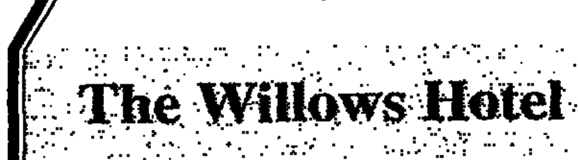

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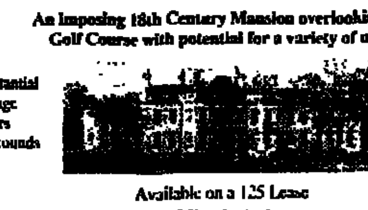

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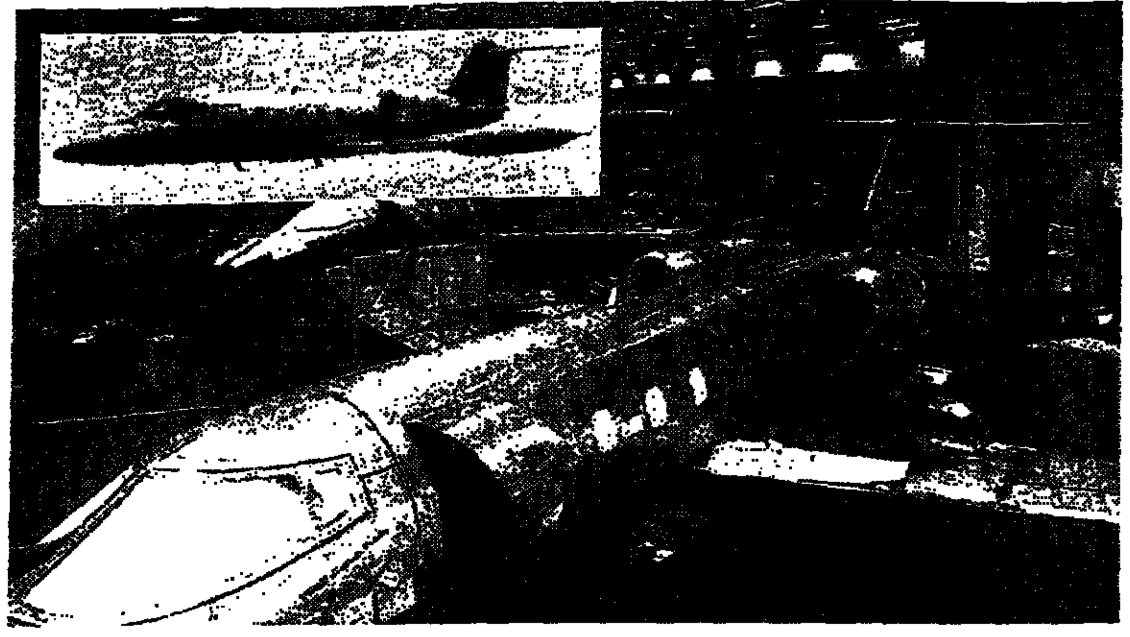
US defence contractors find they have to work hard to compete in the civilian market, says **Victoria Griffith**

Fighting on foreign soil

The Lear Jet: defence and non-defence roles



In a bid to ease the US defence industry's suffering over more military spending cuts, President Bill Clinton has been zealously promoting the concept of "dual use" – the civilian and commercial use of technologies originally developed for the Pentagon.

The administration has even pledged US$500m (£330m) to help former defence contractors convert their plants to non-military production. Yet many groups in the industry are discovering that although the potential rewards are enticing, the task of switching technologies from the military to the civilian and commercial sectors is daunting.

"There is a great temptation to want to spin off all this great technology we've developed in many directions, but we have to realise that there's no magic that will make us capable of operating in another sector overnight," says Ronald Smith, director of business policy at Grumman, the defence contractor.

The histories of defence contractors are strewn with casualties from the battle to enter new sectors. Many companies have been trying to make the switch for years but have met with limited success. Grumman made an aborted attempt at marketing buses, and McDonnell Douglas, the aerospace group, backed a number of failed products in an attempt to diversify.

"We tried microwave vacuums for drying grain and flying fire engines [fire-fighting aeroplanes] but they didn't do very well," says James Caldwell, director of industry participation at McDonnell Douglas. "Our foray into computer and information systems was also a financial loser. Attempts to go outside our core experience have, with few exceptions, met with resounding failure."

Flops like these have forced defence contractors to come to terms with their limitations. One of the biggest hurdles facing military manufacturers is their lack of a strong marketing capability. Many defence groups have no advertising department, no distribution network and a limited sales force, making it difficult for them to sell their products to a large market.

"Most defence groups haven't got the slightest idea how to sell a product on the mass market," says Greg Frisby, president of Frisby Airborne, a Long Island-based hydraulics group and defence contractor. "That's not surprising. After all, they spend most of their time dealing with a single customer, the Pentagon."

Marketing is not the only problem the industry faces. Civilian and commercial work can also present cash-flow difficulties, as companies used to getting paid in military-style instalments for continuing work are forced to wait until after delivery to receive any payment.

"When we started doing commercial work, it was hard for us to finance ourselves," Frisby says. "Defence contractors get used to counting on regular payments from the military."

Defence contractors are also snowed under by the astronomical wages they are forced to pay their highly educated workforce. "We pay mechanics $18 an hour because we need their level of skills to produce military-standard products," says Robert O'Brien, public affairs director at McDonnell Douglas. "But a lot of consumer products don't need that level of expertise, and we can't compete with someone who's paying employees $6 an hour to put out the same product."

The industry also complains about the Pentagon's stringent specifications, which are so demanding that they price the product out of the consumer market. "There are 15 pages of specifications for ketchup in the military, and you can extrapolate from that," says Smith.

"*Obviously, your average* consumer is not willing to pay the extra cost it takes to meet those specifications. The consumer is performance-oriented, the military specifications-oriented. They are completely different markets," he adds.

Many companies are now demanding that the Pentagon loosen its requirements to allow them to compete more effectively in both the military and the civilian worlds. "In some cases, civilian equipment is more than adequate to serve military needs," says Caldwell. "The Lear Jet is a good example of a non-military defence aeroplane that works perfectly well for defence transportation. In the past, the military has had a tendency to over-specify."

Despite the myriad difficulties involved with conversion, defence contractors say that in the face of a diminished federal military budget, it is essential to find new markets. Companies insist that non-military applications can be found for most of their products, and they have come up with a number of successes.

"There's clearly not much of a market outside the military for B-52 bombers or nuclear missiles but most products can be adapted in some way," says Noel Longuemare, head of the systems development and technology division at Westinghouse Electric Corporation in Baltimore.

Westinghouse's defence arm, Westinghouse Electronic Systems, has been hailed by Clinton as a conversion success story. The group reduced its reliance on defence work from 84 per cent in 1986 to 73 per cent today. Westinghouse accomplished this by successfully marketing its military surveillance technology as air traffic control equipment, and selling military security products to civilian police forces.

By marketing thermal control systems to the oil industry, Frisby Airborne has made an even bigger switch, from being 95 per cent defence-dependent in 1985 to just 25 per cent today. Boeing, the aircraft manufacturer, has long maintained a balance between military and commercial sales, and McDonnell Douglas has successfully adapted a number of military aeroplane technologies to the commercial market.

Most of the success stories, though, have taken place outside the mass market. "Selling to non-defence sectors of the government is a good option for defence groups wanting to make a switch," says Smith. "One of the things defence companies know how to deal with is red tape and bureaucracy. Dealing with the civilian side of the government is far closer to the sort of business we're used to than consumer products."

Another option for defence groups is to sell big-ticket items in low-volume markets. Both McDonnell Douglas and Boeing have been successful at marketing their aircraft to the commercial as well as the military sector. "With aeroplanes, we're dealing with a high-technology, low-volume business," says Caldwell. "It's clearly more in line with our business culture than, for instance, selling laptops would be."

Still, some defence contractors insist that the mass market is an option if it is approached in the right way. Westinghouse, for instance, has joined Chrysler in a joint venture to develop technology for electric cars. "Joint ventures are a good way to go because you can join with companies who know the markets well," Longuemare says.

Although conversion may be the wave of the future, defence groups are quick to point out that there is still a lot of money to be made in sales to the Pentagon. "I think the main point is that the communication between the commercial and defence sides must be improved," says Russ Young, a spokesman for Boeing. "In many cases the same technology can be used in both areas."

Young points to the successful adaptation, not only of military models for commercial use, but also the use of commercial aeroplanes for the Pentagon. "Our 707s and 767s were both used for conversion to military aircraft," he says. As novices entering a new line of business, defence contractors are likely to see more failures along the road to non-military production.

Still, companies are learning from their mistakes and are gradually finding niche markets in which they can compete effectively. "Dual use" may not be the answer to all their problems but most contractors are ready to give conversion a try. With the once deep pockets of the Pentagon becoming ever more shallow, most feel they have no other choice.

The best of both worlds in print

Paul Taylor reports on a system that combines laser and offset

A small Israeli-based company claims to have made a breakthrough in printing technology by *developing* the first integrated digital colour offset press *ideally suited* to high-quality short print runs.

Indigo, a private company founded by Benny Landa in 1977, has spent the past 16 years working on technology that merges the quality and performance of *printing* ink and the conventional offset printing process with the power and convenience of laser-style electronic printing.

The company's efforts have already captured the interest of George Soros, the international financier, who recently paid US$50m (£33m) to acquire a *"small minority equity stake"* in Indigo.

Liquid ink and offset printing dominate the quality end of the printing industry, but offset printing is *heavy on materials*, time and labour. It requires skilled operation and lengthy pre-press preparation of films and printing plates. And because *of the time it takes to set* up a conventional offset press, the process is expensive and requires long print runs to be economical. As a result, it is generally limited *to duplicating the same image* page after page.

Laser-style electronic printing is based on the xerographic or electrophotographic process, which *employs powder toner* rather than liquid ink.

The process is used, for example, by modern desktop laser printers and photocopiers but *it, too, suffers from a number* of limitations. The relatively large particle size of the toners results in poor definition, brittle images and a lack of colour *brilliance. In terms of quality,* "it cannot challenge offset printing", Landa says.

Indigo overcame these limitations by developing a fine-particle liquid toner called Electroink, which was patented in 1988 *and is now manufactured* under licence by a range of companies including Xerox, DuPont and Ricoh.

After that, Indigo, which employs 325 people mostly involved in research and development in Israel, set about *developing* the digital offset press.

The result is a machine called the E-Print 1000, "the first of a family of electronic printing products", says *Giora Yaron*, Indigo's president and a former senior executive at National Semiconductor. The E-Print 1000 takes digital information in at one end and can output fully bound colour documents at the other.

The small-scale laser press – *which would* not look out of place in an office – prints at a speed of 120 feet per minute, equivalent to 2,000 full-colour pages an hour and comparable to the speed of an standard sheet-fed press. It achieves a resolution of 800 dots per inch (DPI) on a broad range of papers up to A3 size – 11 inches x 17 inches – using four colour inks. (By way of comparison, a standard laser printer achieves a resolution of *300 DPI.*)

The Indigo press can accept industry-standard *PostScript* format files from a computer-based colour desktop publishing package, eliminating all of the pre-press stages. Each *page* can be also be printed on both sides (duplex), meaning that an entire document can be printed automatically.

An optional automatic finishing *attachment allows fully finished* folded, stitched and trimmed booklets to be produced with no manual intervention.

Low set-up costs mean the *E-Print 1000 is ideally suited to* short publishing runs (500-5,000 copies) – a market that some analysts suggest is potentially worth $25bn a year in the US *alone. Potential applications* range from short-run "distributed" printing to greeting cards, personalised colour printing and low-volume book publishing.

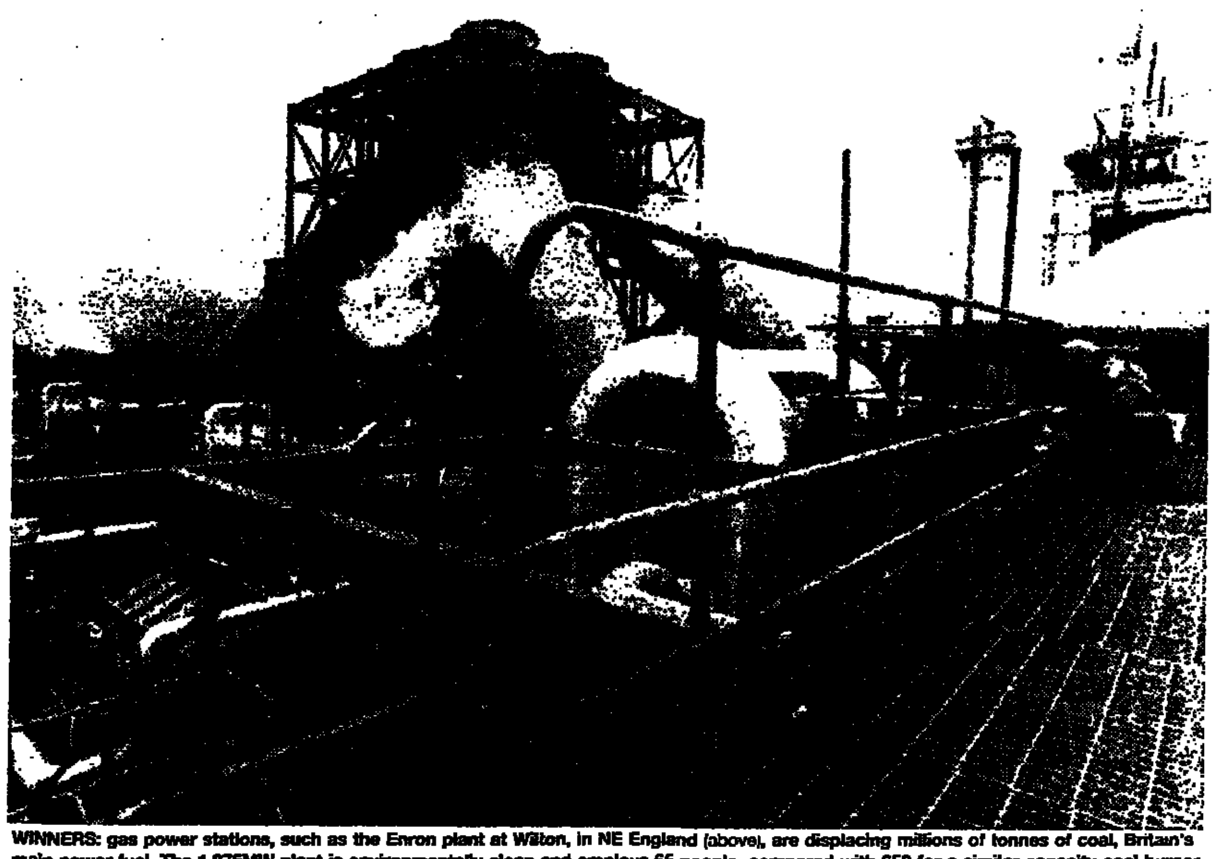
Pre-production versions of the E-Print 1000 are already in operation in Japan. The press will be launched formally at the International Printing Exposition in Birmingham in September.

FINANCIAL TIMES SURVEY

POWER FOR EUROPE

Tuesday June 22 1993

Unprecedented changes are occurring in the supply of electricity in Europe, writes **Michael Smith.** Public utilities are being forced to produce power more cleanly and efficiently – and to clean up their commercial act by giving up their cosy monopoly status



WINNERS: gas power stations, such as the Enron plant at Wilton, in NE England (above), are displacing millions of tonnes of coal, Britain's main power fuel. The 1,875MW plant is environmentally clean and employs 65 people, compared with 650 for a similar capacity coal burner

LOSERS: at Tower, the last big pit in Wales, a miner contemplates his industry's demise

IN THIS SURVEY

SINGLE MARKET: Commissioners adopt the gradual approach;
NUCLEAR POWER: its fortunes in east and west;
SPAIN ADJUSTS to the reforms from Brussels;
DASH FOR GAS: UK leads the pack ....PAGE 2

ENVIRONMENTAL CURBS: a guide through the maze of regulations;
THE SQUEEZE ON COAL: a fuel threatened by ecology and economics;
FRENCH MONOPOLY: EdF's power exports head for a peak;
TURBINE MAKERS: new products wanted ....PAGE 4

BRITISH COAL: the last act is about to begin;
RETURN TO SIZEWELL: Britain prepares for a new nuclear review;
THE CHANGING CULTURE: the effect of privatisation;
OIL AND BITUMEN: enter Orimulsion, a cheap but not so clean fuel ....PAGE 5

Trembling monoliths

EUROPE'S power companies are coming under increasing, and probably unstoppable, pressure to compete.

They are also having to manage their businesses under unprecedented public scrutiny. Europe's growing population not only wants its utility companies to provide better services but also wants a bigger role in decisions affecting that provision.

Later this year France will engage in a public debate on energy. Germany is already in search of a political consensus on nuclear power which, once attained, will have profound implications for the future of coal. The UK government, having hurriedly produced a coal review after a public outcry over mines closures, will launch a nuclear review later this year.

In these debates, and others going on throughout Europe, environmental considerations will play a far larger role than they would have done in previous decades.

The Rio de Janeiro earth summit last year set a series of targets which are forcing countries and their electricity companies to re-think the balance of fuels which go into the electricity market, with gas playing an increasing role and coal facing inexorable decline.

To help cope with all these changes, electricity companies cannot rely on the large volume growth that has sustained them in previous decades. In east Europe demand is depressed by the closure of uneconomic industries and expected growth in consumer consumption will have to await economic recovery.

Western Europe can look forward to only limited growth. According to the International Energy Agency, an arm of the Organisation for Economic Co-operation and Development, electricity growth in industrialised countries is likely to be around 2 to 2.6 per cent a year for the rest of the decade.

Faced with stagnant markets in their own countries, companies are looking abroad. In Britain, where the most significant progress towards liberalisation has been achieved, electricity companies plan significant expansion outside their national boundaries.

National Power plans to invest £1bn abroad by the end of the century. PowerGen is part of a consortium which is close to winning a contract to build a 400 megawatt power station in east Germany.

In other examples of trans-European investment, RWE, the German utility, in May bought a 4 per cent stake in Endesa, the Spanish company which had previously bought 2 per cent of its shares. Last year Tractebel of Belgium bought a 3 per cent stake in Iberdrola, Spain's second largest electricity company.

The aim is for joint ventures and pooling research resources, rather than mergers. Nonetheless such alliances are likely to grow as the European electricity market is opened up for greater competition and provides greater opportunities for investment.

The pressure to liberalise comes from an alliance of politicians and large industrial companies who no longer see the production of electricity as a natural monopoly and who believe that more competition can result in lower prices.

Although its more radical measures are fervently resisted in some countries, it is strongly backed by the European Commission.

Trade in electricity between European countries already exists and indeed has grown to about 10 per cent of the total in recent years. But it is invariably between one state and another. Electricity companies which want to sell power to industrial companies in another country find it virtually impossible. Those pressing for liberalisation say the barriers are erected by monopolies, to protect their markets.

The industry says it is a special case. Unlike virtually all other commodities, electricity cannot be stored. This, together with its strategic importance for each country, makes it unsuitable for the normal laws of the market which other industries have to face, say the producers.

The main issue which divides the community is "third party access", a means of giving companies a right to the use of another country's electricity network to sell to industrial companies. Opposition from utilities, backed by their governments, has forced the Commission to reconsider earlier plans. It is considering measures which would force companies to justify why they refuse another company access.

Meanwhile, the debate appears to have softened the attitude of virtually all the players. France, whose Electricité de France is the most obvious monopoly, is likely to consider in its energy review this year whether liberalisation steps should be adopted.

But liberalisation is by no means confined to the European Community. Norway three years ago introduced market reforms which allowed electricity consumers to buy directly from producers and which made it more difficult for municipalities to use their electricity interests to finance other activities. Prices have fallen since.

In Finland, measures have been adopted to ensure that Ivo, a state-owned company which makes about 40 per cent of the country's electricity, does not cross-subsidise its generating and engineering businesses from the grid system which it owns.

Ivo hopes to be privatised in the next few years, in part so that it will be able, with private capital behind it, to play a larger part in the European electricity market.

Attempts to throw off state shackles are also being made in countries previously dominated by the Soviet Union. Russia is looking at allowing private sector, including foreign, funds to help build the electricity sector.

The Czech Republic has already decided it needs foreign aid to develop its industry. CEZ, the dominant Czech producer which was partially privatised through the sale of 30 per cent of its capital last year, estimates it needs to invest $5.7bn in the next few years, and can only do so if foreign funds are tapped.

Although investment in new plant accounts for much of the total, about $1.9bn is needed to pay for air pollution equipment demanded by stricter environmental laws. This highlights a problem for all electricity companies, particularly those with a high coal burn.

Environmental problems are most acute in east Europe, where governments and companies are having to cope with years of neglect by their predecessors. Enormous question marks hang over the safety of nuclear power stations built with Soviet technology; and big bills are accruing on the mess caused by the failure to clean up after opencast mining, particularly of lignite coal. The cost of cleaning up after lignite mines in east Germany, for example, is about DM30bn.

This consideration, together with problems over sulphur and carbon dioxide emissions, is behind a move away from coal in some European countries, notably the UK.

In the UK the move is helped by plentiful supplies of gas. Other countries are less fortunate. States formerly in the political shadow of the Soviet Union are reluctant to commit themselves to gas imported from Russia, because they want to loosen their ties with that country and because of fears about its political instability. It was partly for that reason that the Czech Republic this year chose to go ahead with building a second nuclear plant in spite of public fears following the Chernobyl accident. Other countries, including Germany and Spain, will not even allow some of their already constructed nuclear plants to make electricity, let alone build new ones.

Europe adopts a slower approach towards a single electricity market, reports **Michael Smith**

Compromise and persuasion

FOR THE first months of 1993, the opening up of the European Community electricity market seemed to have ground to a halt, in the face of opposition by national utilities and their governments. Now the new energy and competition commissioners, appointed in January, seem fully committed to reform.

It will, however, be a process of gradual *change rather than the revolution which* had been threatened by their predecessors. Compromises are being sought by commissioners, particularly Mr Abel Matutes, at energy, and the electricity companies say they are ready to listen.

The utilities can take comfort from the case of another EC initiative which many believe would harm their interests. Finance ministers last month damaged the prospects for an EC-wide energy tax to fight global warming by refusing to endorse it after rows over how the levy should be apportioned.

With the UK government and most utility companies opposed to a levy, some EC officials believe it may take years to implement an energy tax.

Implementation of the energy market will similarly be difficult but the process is back on track in a diluted form which at least tackles the thorny issue of allowing utility companies to sell directly to customers in other countries.

Third party access (TPA), as this form of *liberalisation is called, has long been* backed by commissioners who argue that a free market in all goods can only be achieved if the primary industrial source of electricity is subjected to the same treatment. Allowing full trade between electricity companies and consumers would tackle monopolies and force a cut in power prices, they say.

The first move to liberalisation was the Transit Directive, in force since July 1991, which forced utility companies to extend high voltage networks beyond their areas. Another directive sought transparency of *pricing by obliging* companies to publish prices.

As the next stage, Mr Antonio Cardoso e Cunha, Mr Matutes's predecessor, had planned to break up the monopolies using the EC's special powers, but he was forced to desist. Instead, he sought to attack the monopolies by demolishing exclusive rights to generate electricity and obliging them to unbundle their accounts so that the various segments (generation, distribution, contracting etc.) operate more autonomously. This would make it easier for outsiders to gauge the market and compete.

He also proposed that large consumers – *for example, steel, chemicals and fertiliser* companies – should be granted access to energy networks by the beginning of this year. If successful, the right to buy electricity from anywhere in Europe would have been extended to smaller consumers from January 1, 1996.

EC finance ministers last month damaged prospects for an EC-wide energy tax to fight global warming

It was not. Only Britain was wholly in favour of the proposals. Other states expressed cautious approval for accounts transparency and ending monopolies over electricity production. But Spain, Italy, France, Greece and Luxembourg are still strongly opposed to the principle of TPA.

Part of the problem is that, apart from Britain, most countries see electricity as a natural monopoly. National policy decides price, with different internal constraints leading to different price structures.

Even Spain, which is liberalising its internal electricity supply, is against third party access. "Security of supply is the responsibility of each member country, not the Commission," says Mr Ramon Perez Simarro, secretary general of energy in the industry ministry. "We want as much competition as possible. But the critical issue is security of supply and that depends on primary energy diversification. We cannot delegate that to the market as in the UK."

In outlining his company's opposition to TPA, Mr Jean Bergougnoux, chief executive of Electricité de France, the French utility, says it would be economically inefficient. It would restrict companies' ability to apply equality of treatment conditions in their areas and would reduce interconnections through which energy is traded between countries.

"It is not easy or cheap to build new lines," he says. "Companies would not be motivated if competitors would be able to use *lines in their place*."

In Germany the utility companies are strongly against TPA, arguing that they would be placed at a strong disadvantage to France which sells its largely nuclear-generated electricity at prices that they cannot match, largely because of their requirement to buy expensive German coal.

To achieve a truly free market, they say, all subsidies would have to be removed, whether in Germany, Britain, France or Spain, but that is not in sight and there is no pressure from them to bring it about immediately. Outside the utilities the liberalisation argument in Germany appears to be turning, with some sections of the government favouring it as a means of reducing prices and helping the country out of recession.

How can the Commission circumvent this opposition? Mr Matutes favours amending the existing legislation so that member states will no longer be obliged to grant free access to the electricity and gas networks.

Instead, users which wanted to buy energy across EC borders would negotiate access to other networks, signing *individual contracts*.

Member states and operators would have to justify any decision to refuse a request – for example, on the grounds that there was insufficient capacity, the negotiated price was too low, or there was a risk that domestic energy companies would be unable to meet their obligations to existing clients.

Supporters of full liberalisation need convincing. Dissident states may find ways of circumventing any directive and there is a strong danger of unequal implementation.

Much therefore will depend on the drafting, expected to take place later this year after the European parliament discusses the issue.

Spain adjusts to the reforms from Brussels, says **Tom Burns**

Wind over the Pyrenees

DEVELOPMENTS ARE in motion that could alter the face of Spain's electricity sector.

The government has outlined a new legislative framework and, at the same time, the main utility companies are locked in negotiations that could lead to a far reaching reordering of their assets.

The moves are, on one level, a response to Community directives on the internal energy market and to recent legislative initiatives in the Netherlands, Norway, Portugal and the UK. At another level they seek to replace the existing quota and price structure system, known as the stable framework, which parcelled out the markets and which expires next year.

The government's policy is twofold. The draft bill seeks to liberalise the sector and usher in competivity which is essentially what the Community's directives are about and what comparative legislation in other EC nations aims to establish. The government also seeks to put a new framework in place that will ensure a domestic energy supply that is both secure and diversified.

The domestic electricity generators have a different mission. Up to now they existed, more or less cosily, within a domestic market where the regulatory guidelines of the stable framework allowed sufficient room for each to make *money. Now, with the onset of* more competitive times, it is a question of hanging together so as to avoid hanging separately.

It is in this spirit that Iberdrola, the main private sector utility, appears to have buried a series of past quarrels with its rival generator Endesa, which is state-owned. These are the twin giants of Spain's electricity sector and they have grown a lot more powerful in the 1990s.

Iberdrola is the result of a merger between Hidrola and Iberduero, the two leading private utilities, while Endesa, which is primarily a generating company, has, to Iberdrola's annoyance, built up its retail muscle by becoming a strong shareholder in smaller private utilities such as Sevillana, the distributor in the south of Spain.

Together Iberdrola and Endesa now represent around 80 per cent of domestic consumption and they split this market share evenly down the middle. Quite understandably both the domestic giants are loath to allow any weakening in their respective empires under the new government framework.

Already the two utilities have secured foreign alliances in what is a sure pointer *towards the future cross-border* shape of the European energy sector. Belgium's Tractebel has a 3 per cent stake in Iberdrola and Endesa has recently acquired a 2 per cent shareholding in RWE of Germany.

The alliances are still in their relative infancy but, as they mature, they will involve shared research programmes – RWE and Endesa, for example, are weighted towards coal-fired plants – and joint ventures to seek new business opportunities, particularly in Latin America. In the near future Iberdrola is likely to take up an option to buy into Tractebel while RWE may acquire up to 5 per cent of Endesa.

The two top generators have secured a web of alliances with foreign utilities which indicate the future shape of Europe's energy sector

In the meantime the two Spanish utilities are consolidating their domestic base. The talks between the two reportedly involve the friendly sale of Iberdrola assets to Endesa in an arrangements that benefits both.

At the centre of the negotiations is Endesa's acquisition of Hidruña, the Iberdrola-owned subsidiary in Catalonia. Such a disposal will gain Iberdrola a very sound balance sheet by *sharply reducing debts that* currently represent some \$1.5bn a year in financial charges.

Endesa for its part stands to *gain a firm grip on distribution* in north east Spain through the purchase and it will also be improving its energy mix by lowering its coal weighting. In a second tier agreement, at a later stage, Endesa could be poised to acquire a portion of Iberdrola's nuclear plant shareholdings.

Ironically the present amicable relationship between Spain's leading utilities is exactly what the legislation drafted by the Industry Ministry is seeking to avoid. The administration, under EC guidelines, wants to break up the sort of cartels that Endesa, Iberdrola and others always lived by and which they now seek to reinforce.

The salient characteristic of Spain's utilities is that they are integrated businesses which combine the production, distribution and marketing of electricity; the chief feature of the ministry's planned legislation is that these integrated groups are going to have to separate, both for legal and for accounting reasons, their production activities from their distribution and marketing.

The proposed new framework has all the electricity generated by the domestic companies entering a publicly-controlled energy "pool". This centralised public company will in turn supply electricity to the marketing affiliates of the former intergrated groups and it will also sell electricity, by means of public bids, *directly to major clients.*

David Lascelles assesses nuclear power's mixed fortunes

Chernobyl's lingering shadow

THE CHERNOBYL effect continues to overshadow Europe's nuclear power industry, not just by stifling new developments in western Europe, but by making people nervous about the industry in eastern Europe.

According to the International Atomic Energy Agency, only two west European countries – the UK and France – are currently building new nuclear power plants. In the remainder, nuclear power is either in a state of limbo or subject to constraints, as in Italy where plants have been mothballed, or Sweden which plans to phase out nuclear power by the year 2010.

France's commitment to nuclear power has long been the mainstay of the west European nuclear industry. It already produces nearly three quarters of its electricity from nuclear and has five more units under construction, which will bring the total to 61.

Electricité de France, the state-owned utility, maintains that French public opinion is supportive, despite recent press coverage of alleged rising costs of nuclear power and environmental and safety worries.

"Chernobyl has not made a *significant difference* because people believe western technology is safe," says Mr Jean Bergougnoux, chief executive of EdF. "Where nuclear power exists *people want to build* more plants because they have felt the economic benefit."

The UK's attitude to the industry is much less positive. *Sizewell B, on the Suffolk* coast, is the only plant under construction and is due for completion in 1994. At the end of the year the government is due to launch an inquiry into whether more power stations should be built in Britain. The outcome is difficult to predict, but Mr John Collier, the chairman of Nuclear Electric says nuclear power should be able to make a strong case that it can operate safely and commercially.

NUCLEAR POWER IN EUROPE AT END OF 1992

	Working reactors	Incomplete reactors	Nuclear % of market
Belgium	7	0	58.9
Bulgaria	6	0	32.5
Czech Rep.	4	2	20.7
Finland	4	4	33.2
France	56	5	72.9
Germany	21	0	30.1
Hungary	4	0	46.4
Lithuania	2	1	60 (est)
Netherlands	2	0	4.9
Romania	0	5	-
Russia	28	18	11.8
Slovak Rep.	4	4	49.5
Slovenia	1	0	34.6
Spain	9	0	36.4
Sweden	12	0	43.2
Switzerland	5	0	39.6
UK	37	1	23.2
Ukraine	15	6	25 (est)

Source: International Atomic Energy Agency

What does this mean for the nuclear power industry in western Europe?

Short-term prospects for nuclear power seem doubtful, despite the fact that nuclear power accounts for about a third of all electricity produced in western Europe. Fears about safety are strong, and environmental opposition is well organised. The nuclear power industry has also made little headway with the one environmental argument in its favour: that it does not pollute the atmosphere with gases which are said to cause acid rain and global warming. Some research has even shown *that people think nuclear* power contributes to the greenhouse effect.

Instead, the environmental argument has centred on the problem of nuclear waste. The UK government finds itself at the centre of a controversy since it must decide whether to give the go-ahead to the new thermal oxide reprocessing plant (Thorp) built by British Nuclear Fuels in Cumbria. Thorp, one of only two such facilities in the world (the other is in France), would separate dangerous products like uranium and plutonium from the waste, and send them back to their owners. But there is a growing view that it would be simpler and safer to hold the waste in dry storage.

The waste problem is most acute in Germany where no further development of the nuclear power industry can take place until it has been sorted out. The issue has proved so divisive that an early resolution seems unlikely, much to the frustration of the local nuclear utilities and power equipment makers.

Nuclear power is also facing an increasing challenge from natural gas, whose abundance and suitability for power generation has weakened the *nuclear lobby's argument* that traditional power sources would dwindle. Natural gas power stations are much quicker and cheaper to build than nuclear, and are relatively friendly from an environmental point of view.

Little surprise, therefore, that the World Energy Council's report on West Europe last year foresaw only a small increase in nuclear's net contribution up to the year 2005, and, barring a major shift in public opinion, a steady decline thereafter. What little new plant comes on stream will be offset by closures of *ageing stations*.

But the same WEC report said that if public acceptance did turn more positive, nuclear capacity in the region *could grow by over 50 per cent* by the year 2020 provided there were no major accidents, and control technology improved. The nuclear industry is trying hard to bring about this more positive trend. An indicator may come in September when Finland is to vote on whether to build a new nuclear station.

One of the factors shaping public opinion will be what happens in east Europe where the safety of communist-built reactors is a top concern.

The West has allocated large sums of money to help the east Europeans and the Russians improve their nuclear stations, but actual work has been held up by procedural and legal wrangles, though there are now signs of movement. For example Kozloduy, the large Bulgarian station once described as the most dangerous in the world, is reported to be in a much safer state.

A number of east European countries are pressing on with plans to build nuclear stations. The Czech and Slovak republics have half a dozen units under construction between them, and Romania is going ahead with five Canadian-designed plants. Russia has plans for some two dozen new *stations, though only 12 could* be described as firm.

There is less certainty in other former communist states. The Ukraine has decided to shut down the only two of Chernobyl's four units which are still operating, and is debating whether to proceed with others under construction. Poland has frozen its only plant.

Although East European public opinion is not as hostile towards nuclear power as in the West, the real test there is whether the region can afford to do without it.

Deborah Hargreaves compares the runners in the 'dash for gas'

Britain leads the pack

HIGH HOPES of a rapid European "dash for gas" in power generation have collapsed. But the drive to replace coal- or oil-fired electricity stations with new environmentally-friendly gas plants remains a potent force in continental Europe – it is just not happening as fast as in the UK.

The EC's large combustion plant directive which forces governments to reduce sulphur dioxide emissions by 60 per cent by 2003 is prompting a move towards gas-fired power on the continent. However, in the past two years, prices for heavy fuel oil – which is burned in some power stations – with low sulphur content have dropped considerably. In addition, in many countries electricity demand has *declined with the recession*, delaying the need for new capacity.

The Netherlands, Germany and Italy are the three other European countries to burn a significant amount of gas in power stations, apart from the UK. The three continental countries use between 8bn and 11bn cubic metres of gas a year for gas-fired electricity generation. The UK will reach usage of around 8bn cubic metres by the end of next year.

"*There is a general wide*spread assumption that there is large demand for gas on the continent driven by the conception that gas is the fuel of choice for power stations, but when you go through the countries one by one you realise that there are not that many projects," said one industry consultant.

However, views vary considerably about whether the rest of Europe will jump on the gas bandwagon. Arthur D. Little, the management consultants group, estimates that gas demand in Europe will rise by 55 per cent over the next 20 *years from 300bn cubic metres* to 450bn cubic metres with much of the new demand coming from power stations.

"The dash for gas is not just a British phenomenon. We see as being the fastest growing sector of gas demand across Europe," said Mr John Wood-Collins, managing director of Arthur D. Little.

According to Caminus Energy, the energy consultancy group, the EC Commission is expecting the use of gas to double in the power sector across the EC. But this means gas will still only meet 16 per cent of electricity supplies by 2000. This compares with up to 25 per cent in the UK by 1998 – up from nil in 1990.

Italy has been planning a significant increase in gas-fired plant for some time with Enel, *the state electricity generator*, predicting a big switch from heavy fuel oil into gas. Plans have been scaled back as fuel oil prices have declined, but *Italy still plans to convert to* 25 per cent gas-fired power by 2000 compared with 18 per cent in 1990.

PowerGen's gas-fired flagship on Humberside: cleaner and cheaper

Germany is currently building one gas-fired station in Dresden and another in Stada on the north coast. But Ruhrgas, the country's major gas supplier, has said recently that most of Germany's new power demand will be met by coal-fired generation.

The International Energy Agency, the west's energy monitoring body, expects gas to meet 14 per cent of Germany's electricity supply needs by 2000, an increase from 7 per *cent in 1991*.

Two plants are planned in the Netherlands with start-up due in 1996 and Belgium is building two gas-fired stations. This compares with plans for this has been scaled back from earlier projections.

Elsewhere in Europe, the biggest gas turbine equipment in the world has just been completed outside Paris, but the plant will burn gas at peak times only which could be as little as 20 hours a year. France remains committed to its nuclear programme, and appears more interested in clean coal technology than additional gas plant.

Spain is looking at augmenting its electricity capacity with gas-fired stations which will use Algerian gas from the new Maghreb pipeline which is *expected to start running by* 1996. Algerian gas will double Spain's gas capacity and the country's electricity industry is looking at constructing gas *plant. Portugal is currently* building a large coal-fired power station in the north and has no immediate plans for gas.

Eastern European countries are looking to replace some of their highly-polluting, coal-fired stations with gas capacity, but few concrete projects are under consideration.

In Scandinavia, Sweden has committed itself to phase out nuclear power stations by 2010 – nuclear currently provides around half of the country's power needs – and some of it could be replaced by gas.

The dash for gas in the UK was prompted initially by the privatisation of the electricity industry and the resulting industry structure, but cheap gas prices also created huge demand.

The creation of National Power and PowerGen as England's and Wales's (not Scotland's) only non-nuclear generators left many of the regional electricity companies eager to escape the yoke of the generators and build their own power stations once they were privatised.

By March 1991 the dash for gas was turning into a stampede, forcing British Gas to ratchet up its prices in an effort to cut off demand. By the end of April 1992, the National Grid was predicting 60 per cent surplus capacity in the market if all 28 stations which had applied for grid connections were built by 1997 as planned.

However, since then some companies have dropped out: National Grid says eight stations have either been cancelled or deferred, putting the surplus capacity at between 24 per cent and 37 per cent by 1995 to 1996.

Three of the remaining 20 stations have already been opened: Lakeland Power's Roosecote plant in Barrow-in-Furness, Enron's Teesside station which is one of the largest CHP plants in the world at Teesside and was opened in April, and PowerGen's Killingholme plant on Humberside.

The Teesside plant which has four regional electricity companies as partners provides graphic evidence of the attractions of gas-fired generation. The station is fully computerised and employs just 65 people compared with 650 workers at a coal plant of similar size.

In addition, Teesside emits half the carbon dioxide of a coal plant, its sulphur emissions are negligible and it produces one-ninth of the nitrous *oxide waste of a coal plant*.

The environmental benefits of gas-fired electricity generation are overwhelming. But gas must compete on price with other sources of fuel and it is not as easy to transport as oil and coal. The use of gas in power stations is on the increase in Europe, but a fully-fledged dash for gas on the

In the ex-Soviet bloc, says **Chris Cragg**, N-power retains a role

Enigmas in the east

SEVEN years after Chernobyl, it seems strange that nuclear power is growing in importance in Russia.

In contrast to the US, where alternative technologies using gas and clean-coal combustion are driving power sector expansions, Russia remains wedded to its nuclear industry.

According to a survey by Siemens, nuclear power will apparently account for 18.7 per cent of a greatly increased demand by 2010, compared with 10.9 per cent in 1990.

In March, the Russian Ecology Ministry even gave approval for the finish of the 60 per cent complete unit No 5 at Kursk, 500 kms south of Moscow.

Kursk No 5 is an RBMK reactor, similar in design to those of Chernobyl. It has, apparently, been thoroughly modernised and enhanced with new safety features.

Chernobyl, of course, is in the Ukraine, whose people, along with those of Belarus, suffered most from the disaster. Leonid Kravchuk, Ukraine's president, recently revealed that 11m people had been treated in some way for effects of the radiation. Yet the remaining plants on the site are still in operation.

The Ukrainian local authorities cannot afford to shut them down, while the *station managing director, Nykola Sorokin,* believes that they have been sufficiently improved *so* as to be substantially safer than many other plants in the former Soviet Union.

*Worries continue about the cracking sar*cophagus over the ruined reactor and about the impact of a rising water table underneath. Yet the site remains in production.

The Ukraine may indeed lift its ban on building new reactors shortly. The government is under strong pressure to start the nearly complete reactor at Rovno.

Even in Belarus, where there are no reactors at all and resistance to building sons, the government has plans to build two, but has yet to find a site.

In Armenia, the French nuclear consultancy Framatome is helping assess two 408MW VVER reactors for refurbishment. These were closed after the 1988 earthquake on safety grounds. Now the Armenia government is desperate to reopen them – electricity supplies in the Republic are available for less than one hour a day.

Russia's own intended increase in nuclear power does not flow from the same economic motives as those of Armenia or the Ukraine. Russian electricity demand fell in 1992 by 5 per cent. Equally, Russia has the world's largest gas reserves, substantial supplies of oil and more than 400 years of coal supplies at current rates of extraction.

The Ukrainians say that 11m people have been treated for effects of the Chernobyl explosion

In contrast, both Armenia and the Ukraine have had to adjust to rapid increases in fossil fuel prices on which the bulk of their power supply depends.

As things stand, 73.3 per cent of Russia's 213GW of *power capacity is fossil* fuel-fired, 20.3 per cent is hydropower and only 9.5 per cent is nuclear.

At present, the nuclear sector has nine plants, with 28 reactors, amounting to 20 GW. *Prior to the* Chernobyl accident, the Soviet government had planned to more than double this capacity in order to provide the USSR with a20 per cent level of nuclear electricity by 2000 and increasing thereafter.

After Chernobyl work was stopped on more than 74 new plants either under construction or planned throughout the USSR. The new plans are not as extensive as this.

in Russia itself, amounting to 8,600MW as well as 3,000MW in the rest of the CIS area. A further 7,600MW are at the planning stage. Of these, three, at Balakovo, Kursk and Kalinin, are due to be finished by the end of 1995, according to the Ministry of Atom Power (*Minatom*). A further eight are due to come on line before 2000.

In a curious way, the fear about safety in Russian designed reactors has actually aided the role of nuclear power in Russia. As a Friends of the Earth Report, *Dangerous Liaisons*, pointed out last December, western nuclear companies were among the first industrial sectors to seek work in both eastern Europe and the former Soviet Union. The process of *getting bilateral aid* from the west was greatly aided by the fear that Chernobyl could happen again.

As the state of former Soviet waste disposal plant was revealed, this too attracted western company *interest*.

In 1991, nearly half of the EC's TACIS technical aid programme for energy in the CIS went on nuclear safety; a figure of Ecu54m. Most of this was spent on "*operational safety*" rather than physical upgrading on the RBMKs and virtually all of it went to western companies. Money spent on energy saving measures amounted to Ecu21 million.

In 1992, TACIS ceased to have an "energy" sector at all. It was replaced entirely by nuclear safety with a grant of Ecu100m.

Russian enthusiasm *for nuclear energy* may well be increased by a further Ecu3.3m TACIS grant to the new International Science and Technology Centre (ISTC) in Moscow. Funded with additional money from the US and Canada, Boris Yeltsin has decided to place this under the supervision of Minatom as a home for Russia's numerous unemployed nuclear scientists.

In the view of nuclear sceptics, this is using western taxpayers' cash to promote

POWER FOR EUROPE 4

ELECTRICITY generation, one of the main causes of air pollution, has been one of the central targets of environmental regulation for decades. However the justification for "green" measures is increasingly questioned both by industrialists and politicians as the costs of further improvement keep rising.

The debate about how much to clean up the energy sector has been fiercer than many other environmental battles because electricity generation produces some of the most troublesome kinds of air pollution.

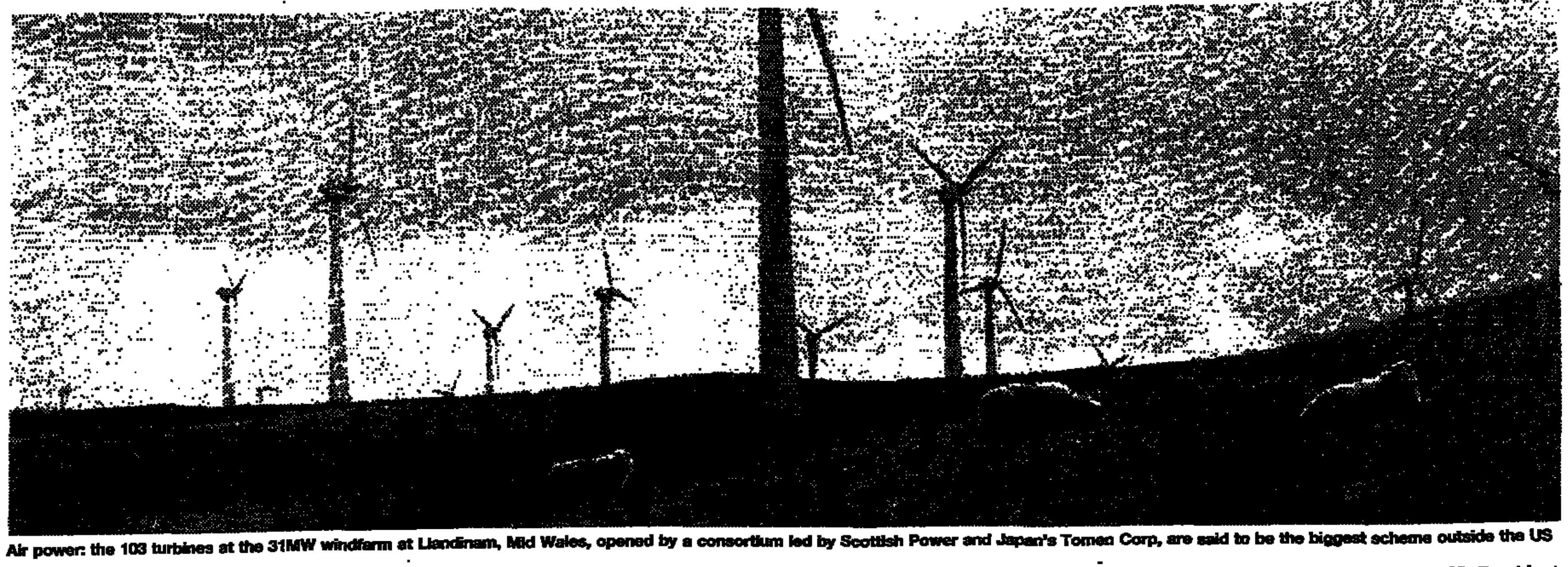
Burning fossil fuels – coal, gas and oil – yields sulphur dioxide and oxides of nitrogen, considered to be root causes of acid rain and urban smog and a factor in some respiratory diseases. In 1990, the EC's electricity production was responsible for 63 per cent of SO_2 emissions and 22 per cent of nitrogen oxide emissions, according to the 1992 EC report on the state of the environment. Fossil fuels also produce carbon dioxide, which has been recognised in the past decade as a separate, worrying problem. Although not a pollutant in the conventional sense – it is present in the atmosphere – the rising concentrations are thought to bring the risk of global warming. EC figures say that in 1990 electricity production was responsible for 31 per cent of CO_2 emissions to the air.

There are no CO_2 emissions from nuclear power, but the radioactive wastes are very costly to handle

There are considerable national and regional variations in these figures. In France, for example, electricity generation is responsible for less than a third of sulphur dioxide emissions as nuclear power – which emits none of these gases – is predominant. But nuclear power produces radioactive waste, and its long term storage brings further costs, environmental problems and political pressures.

Bronwen Maddox hacks her way through the spreading jungle of green regulations

Smoke gets in their eyes



Air power: the 103 turbines at the 31MW windfarm at Llandinam, Mid Wales, opened by a consortium led by Scottish Power and Japan's Tomen Corp, are said to be the biggest scheme outside the US

Attempts to tackle air pollution have resulted in layers of regulation. The World Health Organisation has guidelines on tolerable levels of sulphur dioxide and nitrogen oxides, many of which the EC has adopted within its environmental directives.

The United Nations' Economic Commission for Europe (ECE) – most of the countries in East and West Europe plus the US and Canada – has separate guidelines and protocols, and national governments have their own legislation.

Many of the earliest regulations were directed at sulphur because of rising public concern in northern Europe about dying forests. The 1985 ECE protocol on Transboundary Pollution called for a 30 per cent reductio on 1980 emission levels by 1993. As a result, German power companies have fitted flue gas desulphurisation (FGD) equipment to almost all power stations, and are embarking on cleaning up the East German stations.

Britain has fitted FGD equipment, which costs some £200m per 1000MW of power generation, to only two stations so far, although the Department of the Environment argues that this will put the UK on course to meet commitments made at the electricity privatisation three years ago. However, the protocol is currently being tightened; following the UK's recent decision to extend the life of some coal pits, it is unclear whether its sulphur emissions will fall quickly enough to meet new standards.

The most ambitious of the air pollution treaties affecting the electricity generating sector is last year's Rio Earth Summit convention to curb international emissions of carbon dioxide. But energy taxes – the most commonly proposed tool for curbing demand for energy and reaching the Rio targets – are running into political difficulty on many fronts. US President Bill Clinton has been forced by Congress to withdraw his first proposals for such a tax. The recent session of the European Commission's economic and finance committee failed to reach consensus on its plans for a tax weighted towards those fuels with the highest carbon content.

Environmentalists argue that although the regulatory measures of the past decade are welcome, they do not go far enough. Many pressure groups, including the Europe-wide Friends of the Earth, argue for an expansion of the use of renewable energy – wave, wind and solar power – which at the moment makes up only a few per cent of EC energy use.

However, the cost of most renewables is considerably higher than electricity produced using fossil fuels or even nuclear energy. A report for the UK government in November concluded that electricity from renewables cost two to three times as much as that from existing sources. It put the cost of electricity from coal, gas and nuclear at between 2.2p and 3.5p per kWh, although it these figures do not reflect all start-up and environmental costs.

The report argued that expansion of renewable energy sources was possible but that it would take considerable government help and subsidies. On that basis, it said that renewables could "plausibly" contribute between 5 per cent and 20 per cent of 1991 levels of electricity supply by the year 2025, saving around 6 per cent of current emissions of carbon dioxide.

Industrialists, however, are increasingly concerned about the cost of environmental regulation and the effects on companies' international competitiveness. Mr John Cox, of the UK's Chemical Industries Association, says: "we are particularly concerned about the cost of electricity in the UK, which can be greater than that for Belgian or Italian companies. We support environmental protection if it is clearly going to improve the environment but anything which increases the cost of electricity puts UK companies at a greater disadvantage." The proposed EC energy tax would be "an ineffective gesture unless you get the measure adopted at the same time in the Third world".

There is scope for increased renewable energy, but State financial aid will be needed

As the European economies struggle to climb out of recession, they may pay closer attention to the costs of environmental regulation than in the past.

Electricité de France, the world's biggest utility, still rides high, says **Niamh Kenny**

Where big is beautiful and rational

ONE OF the paradoxes of Europe's electricity market is that it was one of the world's biggest monopolies, Electricité de France, which has done most to promote the concept of a competitive electricity market for Europe by gaining access to customers outside the borders of France.

Indeed, some say its initial (and abortive) attempts to sell power direct to German industry in the 1980s were the catalyst for the European Community's present efforts to enforce third party access (TPA) into the Continent's transmission grids.

EdF's aggressive export policy sprang from expediency rather than ideology. It needed to raise revenue in order to fund its ambitions of nuclear plant construction programme in the 1980s, which was France's typically forthright response to the oil scarcities of the 1970s. The export drive then gained further impetus from the expectations of continuing economic growth.

When these hopes collapsed, EdF's heavy dependence on base-load nuclear plant (accounting for 73 per cent of its total output at the end of last year) left plenty of spare capacity for export.

EdF pitched its prices at levels low enough to deter other European utilities, notably Italy's Enel, from expanding their own generating capacity. Exports thus began to rise dramatically from the early 1980s, when plant completions began to swamp demand growth and again, after 1987, when the cross-Channel inter-connector with Britain was completed.

At the end of 1992, foreign sales stood at around 12 per cent of EdF's total output, earning it Ffr12.4bn.

Exports are expected to continue rising, before eventually flattening out at around 70 TWH by 2000. Contracts have already been signed committing EdF to much of this additional business.

This sounds like the kind of open market trading the EC is keen to develop. But other European producers are beginning to complain that it is a one-way trade and that they have little access to the French market, despite some recent import deals. Perhaps more seriously, they say they cannot complete against a company which is buttressed against domestic competition and which enjoys the economies of scale of large monopoly.

The break-up of EdF and its possible privatisation is something which many, including the European Commission, would like to see. EdF is expected to resist this robustly, although some restructuring along EC lines is underway, including the introduction of greater price transparency between its constituent parts.

EdF's view of privatisation was reflected earlier this year in a series of highly critical reviews of the UK experience. The reports, which EdF commissioned from outside consultants, concluded that privatisation in Britain was characterised by price increases, economic disruption, short-termism and, ultimately, the replacement of a state monopoly with a monopolistic private one.

DESTINATIONS OF FRENCH POWER EXPORTS (twh)

	1985	1990
Belgium	4.48	2.31
Germany	4.10	8.67
Italy	7.52	15.44
Spain	2.64	1,51
Switzerland	9.80	12.08
United Kingdom	0.13	11.93

Source: International Energy Agency/OECD Statistics

Nor is EdF enthusiastic about another Euro-hobby horse – the "unbundling" of its various interests to prevent cross-subsidisation. The benefits of an integrated business, it believes, include better prices and standards of service. It has the support of politicians, who believe that the French system works well.

EdF has a point when it comes to the domestic market. Its reliance on nuclear power, with all the back-end costs that will ultimately entail, must surely rule out full privatisation. The inability to privatise the UK's nuclear stock has already proved the extreme reluctance of the private sector to accept nuclear risk. Privatising EdF's thermal and hydro stock would also, it claims, increase prices.

Yet there is pressure for change which is likely to become more insistent in the next few years.

Firstly, EdF is facing increasing generation challenges inside France which could hinder its export ability. Its stock of 900MW and 1,300MW pressurised water reactors (PWRs) have suffered a number of generic problems since the late 1980s, including faults in the steam generators and cracking of vessel heads. Repairing them is costly in money and time: replacing a steam generator, for example, closes a power station for three months.

Capacity is also reduced during the company's regular and five and 10-year safety reviews, which currently last four months and cover about a fifth of EdF's reactor every year.

In spite of its surplus of baseload capacity, EdF has also found itself short of peak-load capacity, as seen in the drought of 1989 which sapped its hydro-electric output and led to the import of some 6 TWH of power.

A push into the space heating market has also increased EdF's sensitivity to temperature changes. It estimates that by the end of the decade each one degree C drop in temperature will raise national demand on its system by 2,000MW.

Therefore, while export contracts are unlikely to be terminated, EdF is looking closely at two-way deals, such as the contract signed recently with Britain's PowerGen, allowing it to import up to 850MW at peak demand times.

A second export-limiting factor is the weakness of the transmission system. Spending on grid reinforcement has taken second place to investment in new nuclear generation over the past two decades

EdF consultants say that private power in Britain is costly, short-termist and persistently monopolistic

and domestic as well as international lines are said to be near maximum loading.

Finally, new entrants could come on the scene as the nuclear reactors near the end of their lives. Originally this was to have started to occur in the next 10 years, though EdF now intends to extend their operational life from 30 to 40 years.

Whether this can be achieved remains to be seen. But either timescale would entail a largescale replacement programme, nuclear or other, which EdF can ill afford at a time when it is committed to reducing the foreign debt built up dring its last big construction phase.

□ Niamh Kenny is news editor of FT Power in Europe

■ THE FUTURE FOR COAL

The outlook is bleak but it's not terminal

COAL is coming under pressure as a power generation fuel in Europe, though reports of its imminent demise may turn out to be exaggerated: it will still be the largest single source of electricity in the region well into the next century.

Two factors are at work. One is the policy of the Brussels Commission to reduce subsidies to the coal industry in the three major coal countries, the UK, Germany and Spain.

The other is the steady tightening of environmental regulation. On one level this is reflected in the international commitments made at the Rio Earth Summit to cut down emissions of carbon dioxide, much of which is produced from power generation. On another, there is a raft of EC and national regulation aimed at reducing output of sulphur and nitrous oxides which are said to cause acid rain and other damage. Again, coal-fired power is partly to blame.

The main piece of EC regulation is the 1988 Large Combustion Plants Directive which sets emission ceilings extending into the next century. This directive is due to be reviewed next year, and the chances are that the ceilings will be lowered, putting further pressure on coal-fired power.

These trends are at their most stark in the UK which has the largest coal industry in Europe, but where recent events have pushed it into a state of crisis. Today, it finds itself caught between a government determined to put coal on to a commercial footing, and a power industry which finds other types of fuel, particularly gas, more attractive.

Although the UK government was forced by a public outcry to review last year's decision to close down more than half the country's surviving coal mines, it still hopes to begin privatising British Coal, the state-owned monopoly, towards the end of this year. Once that goes ahead, there is little reason why British Coal should not cut to half its size quite rapidly. All that will cushion the blow is a temporary extension of the subsidies.

The background to this is the steady erosion of coal's position in the electricity industry. In 1980, the UK produced nearly 100m tonnes of deep-mined coal, and generated over 70 per cent of its electricity from coal. Last year, power generators burnt only 75m tonnes of coal whose share of power generation fell to 60 per cent. And this trend will continue. Research commissioned by the UK government for its coal review from Caminus suggested that the power industry will only need 40m-49m tonnes by the year 1997-98, and that coal's share could fall below 50 per cent by then.

Apart from the government's determination to phase out the £1bn-plus subsidies which the coal industry requires each year, the factors driving these changes are mainly cost.

The newly privatised UK electricity industry views coal not just as an expensive fuel, but as one whose appeal will not improve over time, principally for environmental reasons.

Germany is seeking a new coal subsidy but Brussels wants this kind of aid to be reduced

As a result of bygone energy policies, the UK has many of the largest coal-fired power stations in Europe, and the cost of cleaning them up is enormous. Drax, a 4,000MW station in Yorkshire owned by National Power, is being fitted with desulphurisation equipment at a cost of over £700m.

This daunting expense is making the power industry wary of leaning too strongly on coal. At the moment only one other plant is being desulphurised, and it is looking increasingly unlikely that that number will rise very far. Instead, the generators are considering alternative ways of meeting the emission limits. These include running coal-fired stations for fewer hours, or abandoning coal altogether for cleaner fuels, in particular gas.

A lot of gas station construction is already underway, and it is forecast that gas could account for the equivalent of 30m tonnes of coal-fired power generation by the end of the decade.

The picture on the continent is not so stark. Countries with small coal industries are steadily winding them down as they become uneconomic. Belgium, once a big producer, stopped altogether at the beginning of this year. France expects to stop in 2005. But the larger producers are resisting major changes to coal because of the employment it provides and the lack of alternative fuels.

In Germany, where hard coal is heavily subsidised and accounts for about a quarter of electricity generation, output is declining, but slowly. Consumption of coal for power generation, currently around 40m tonnes, is expected to decline to 35m over the next five years.

"It is a very different situation to the UK," says Dr Adolf Spies, chairman of the German coal producers association. "We have practically no oil and very little gas. Coal is the only resource we have . There is a strong security argument."

Germany is aiming to negotiate a new subsidy regime to replace the present one which expires in 1995. But though it hopes to make the new one more transparent, it will face pressure from Brussels which is trying to reduce aid in this area – other than for restructuring or final closure.

A wholly separate question for Germany is what to do about the East German coal industry which it inherited with unification. Based on highly polluting brown coal, it requires a vast clean-up.

Spain also supports its coal industry, the costliest in Europe, through state aid and consumer subsidies. But here too coal is probably at its peak. Spain's national energy plan foresees coal consumption levelling off, with an increasing proportion coming from cheaper open cast sources.

Coal's deeply entrenched position will be its salvation for some time. One question is whether it could ever make a comeback as new technology allows it to be burnt more cleanly, and production costs come down. Mr Crispian Hotson, chief executive of Ryan Group, an independent coal company in the UK which hopes to take advantage of the changes in the market, believes it could. He envisions a number of small clean-burning power stations of 200MW close to coal sources. "Coal becomes an interesting business when they create genuine competition for it," he says.

David Lascelles

■ EQUIPMENT MAKERS

Demand rises for new products

INSIDE the control room of PowerGen's Ferrybridge C power station in West Yorkshire is a television screen which alternates between giving information on the day's forecast power demand and the privatised electricity supplier's share price.

The stockmarket display is not the only evidence at the 2,000MW coal-fired station of the changes sweeping the electricity supply industry.

Earlier this year, Dunn International, a subsidiary of Hull-based Prospect Industries, became the first company to be appointed as lead contractor with responsibility for virtually all the overhaul and maintenance work at a UK power station.

The long-term deal, won against tough competition, reflects the customer's wish to contract out of such work, reducing its workforce and saving money in the process. If it goes well, similar deals could follow. "Our competitors are hoping we'll fall flat on our faces, but we won't," says Mr Philip Wilbraham, Prospect's chairman and chief executive.

Recent events at Prospect mirror the changing face of the power supply industry, which is creating new opportunities to suppliers of equipment and services but also forces them to be more responsive.

Apart from the Ferrybridge C contract, Prospect last year paid £10.1m for Davenport Holdings, which builds and refurbishes water cooling towers. The aim is to add an important international dimension to the company in the US and, increasingly, in continental Europe.

This is the kind of deal characterising a period that, on the face of it, might seem relatively quiet following the heavy recent restructuring of the European power equipment industry.

The two major companies formed from the mergers of the late 1980s, the Anglo-French GEC Alsthom and the Swiss-Swedish Asea Brown Boveri, have now been in business for five years.

Along with Siemens of Germany, these three companies turn up regularly on the short lists for virtually all the European contracts for gas and steam turbines and – depending on the country – there are a handful of other names that can be guaranteed to be bidding.

However, while there have been no takeovers or mergers of such a scale since the late 1980s, there is plenty of activity, which can be categorised in a number of ways:

● Deals reflecting the changing shape of Europe: the collapse of the eastern bloc communist regimes has fuelled intense interest in their power equipment suppliers, which is making the concept of two separate western and eastern industries less valid. ABB in particular has led the way into eastern Europe with power-related takeovers and joint ventures in Poland, Czechoslovakia and Hungary.

Siemens, too, has been in on-off negotiations with Skoda Plsen of Czechoslovakia on a joint venture involving conventional thermal power plant, and both it and GEC Alsthom have negotiated gas turbine joint ventures with companies in St Petersburg.

In the short term at least, the value of the eastern companies to their western owners or

Reforms in electricity supply are making plant makers more responsive and innovative

joint venture partners is more as a manufacturing source than as an entrée to eastern markets, whose equipment needs have yet to be matched by finance. In contrast, the acquisitions and joint ventures undertaken by the big equipment suppliers in eastern Germany have borne much greater fruit in terms of business won, because of the restructuring and modernisation of the ageing power industry in the new German states.

● Deals involving non-European companies: the big US equipment suppliers have strengthened their networks of licensees and associates in Europe. General Electric signed a series of agreements in 1991 with Elin of Austria, and a year later with Germany's Blohm + Voss, adding to the presence it has achieved in Europe in its own right and via agreements such as its 10 per cent stake in GEC Alsthom's European Gas Turbines unit. Westinghouse earlier this year signed a two-year co-operation agreement with Finland's Haka Stroi to develop opportunities in the Baltic states, and last year announced a far-reaching partnership with Rolls-Royce, the UK aero-engine group, which should strengthen both companies' position in the European market and elsewhere.

● Sectoral activity: restructuring and reorganisation has continued in product sectors where suppliers that have traditionally relied on national buying preferences are having to adapt to global market opportunities, technological competition, and their own manufacturing overcapacity.

The boiler industry, for example, has seen a number of deals in recent years involving companies in the US, western and eastern Europe. Long lead times and shortage of work have also brought changes in the European nuclear plant supply industry. The co-operation between Siemens and France's Framatome to develop EPR, the European Pressurised Water Reactor, is an example.

● Internal restructuring and reorganisation: the mega-mergers of the late 1980s were only the start of a process that has led to big increases in productivity and improvements in manufacturing effectiveness.

In Europe, the mergers have led to a concentration of production of key components such as gas turbines, and some closures of plant associated with the relatively unfashionable large steam turbines, or with the nuclear industry.

This has reduced the problems caused by manufacturing overcapacity in Europe, although the eastern Europe expansion has partially offset that. Looking ahead, the big question is whether any further major restructuring of the European power plant industry is likely.

At present, it is difficult to foresee anything on the scale of ABB or GEC Alsthom being created. Demand for new power capacity in Europe may be growing at only about 2 per cent a year, but the suppliers are operating in a global market where there is enough work to keep the equipment producers reasonably busy.

But the European suppliers will be continuing efforts to increase their profitability through further internal cost-reduction efforts, bringing it more in line with that of their US rivals.

Andrew Baxter

Fallout of Soviet power

□ Continued from Page 2

a technology in Russia that is not being developed elsewhere.

The anti-nuclear lobby has a dilemma in relation to eastern European and CIS nuclear power. Few can suggest that the safety issue should be ignored. Yet it is clear that expenditure of money on safety at various plant is seen as justification for their continued operation.

The original perception was that many of the more dangerous plant would be handed over to western contractors for safety upgrading. Siemens put the price at between $150-$180m for a VVER 440MW reactor. Yet Minatom has now stated that it feels fully confident of its own technological skills and wants to limit western involvement to improved monitoring and training, for reasons of national pride as well as money.

Yet if the plan is to go ahead with 12 more reactors before 2000 in a Russian nuclear revival, then safety remains a potent question mark over Russian technology.

If the Russians have radically improved their record of "human error", the number of incidents resulting from equipment failure is rising.

The preferred solution of anti-nuclear groups, the industry's replacement by gas-fired capacity is perfectly possible and might even be cheaper than a full safety upgrade to western standards. Yet such a shift to gas would worry western gas and power utilities, counting on Russian supplies.

Minatom remains at the centre of a power sector which has hardly suffered from the disintegration seen in the oil sector. The nuclear programme will keep it there.

□ *Chris Cragg is editor of FT Energy Economist*

Michael Smith on the imminent collapse of the remnants of Britain's once great coal industry

Locked out of the new market

SUCH WAS the public furore over the UK government's pit closures programme last October that it seemed that only a fundamental change on energy policy could get ministers off the hook.

Six months later, however, Mr Michael Heseltine, trade secretary, won parliamentary support for a programme which was remarkably similar to that which led to the original decision to close 31 pits.

Although 12 of the pits were reprieved and another six mothballed, the stay of execution for some, and probably most, will be short, and British Coal has already given notice that it wants to close three. The problem is that the government did little to create the room in the market essential for their survival.

That means that towards the end of the century, the fuel constituents for electricity, the main market for coal, will be used in much the same proportions as were envisaged before last October.

Coal will still be the largest element, with perhaps 40 to 50 per cent of electricity in England and Wales being made from it. But that compares with about 70 per cent

Between 1990 and 2000, electricity generated from coal will decline from 70 per cent to 40-50 per cent

in 1990. The difference is mainly accounted for by the growth of gas, which may claim 25 per cent of the market against nothing at the beginning of the decade. Nuclear power, strengthened by the opening of the Sizewell B plant and improved efficiency, has the potential to increase its 23 per cent market share.

Coal has been in constant decline since the second world war but few production drops have been as steep as that between last year, when 65m tonnes went to the generators, and next. So far at least British Coal has the promise of only 30m tonnes in 1994-5. The fate of the 12 reprieved pits depends largely on how much more the corporation can persuade the generators to take, but this is unlikely to be more than 8m tonnes, enough to sustain perhaps half of the dozen pits and none of the further six which have been mothballed.

The sharp sales drop is down to two main factors. The first is that the economics of building power stations are such that all new power stations under construction or being planned will be gas-fired.

The government's coal review sparked vigorous debate about whether electricity from new gas stations was cheaper than that from existing coal plants, but the generators have no doubt about which form of electricity is cheaper if building a plant from scratch.

PowerGen, the generator, says the 900MW station it has opened at Killingholme, Humberside, this year has taken three years to build, half the time a coal plant would take. The station will be run by 36 people, less than a fifth of the staff needed for a conventional coal-fired station.

But if that helps explain why gas is preferred by generators it does not in itself account for the extraordinary speed of the dash for gas. There is a surplus of electricity in the UK; so why build more plants so soon? The answer has its roots three to four years ago when electricity was privatised. The move to gas would probably have happened anyway. But it has been speeded by the government's creation of just two generating companies.

Winds of change over England's big generators: a merry-go-round train from the Yorkshire coalfield delivers fuel to Ferrybridge power station

Fears of the two companies exercising a duopoly influenced regional electricity companies in deciding whether to help build gas-fired generating plants; 11 of the 12 have done so. Their participation was essential because they can provide guaranteed markets for the output.

Supporters of the coal industry say the competition from gas is unfair because the recs (regional electricity companies) can pass on the costs of the electricity they produce to consumers. The recs, after all, have signed 15 year contracts with the gas generation companies they partly owned but only five year deals with the coal industry.

However, the UK electricity regulator has ruled that the recs made sound economic decisions in setting up the plants.

In the coal review ministers came under strong pressure from the parliamentary industry select committee to restrict the access of gas to the electricity market. As if to emphasise its rejection of this approach, the government, on the day the white paper was published, gave planning consent to a large gas-fired generator at Connah's Quay in North Wales.

In doing so it was able to emphasise its free market approach. More important, a halt on the dash-for-gas could have landed the government with a myriad of compensation claims. It had, after all, always encouraged the recs' diversification and the move into gas generation.

Ministers potentially had more leeway with nuclear power, as it owns all the major nuclear companies, including Nuclear Electric and Scottish Nuclear. Again it resisted any curbs on future generation.

Failing to bring Sizewell B in Suffolk on stream was never a serious consideration but at one stage the ageing magnox reactors appeared in danger.

Again money was a primary consideration. Closing them early would have hit inflows into the Treasury at a time when public finances are tight.

Perhaps in an attempt to balance this lack of action, the government claimed some success in cutting back orimulsion, the bitumen based fuel imported from Venezuela. The coal white paper suggested that Venezuela had volunteered a cut of 500,000 tonnes of coal equivalent a year. This was at the margins anyway and would not save even one pit.

Shortly afterwards, however, BP Bitor, sole importer of the fuel, said it expected existing sale levels to continue.

So what did the white paper change? The major difference between the October plan and that now in place is that the

The move to gas was inevitable, but was speeded by the creation of the two generating companies

government has introduced the idea of subsidies. It says it will foot the bill between imported coal prices and those produced from the 12 reprieved pits.

The caveat is that British Coal must first find a market for them. Given that the UK last year imported 20m tonnes of coal, that in theory should not prove too onerous. However, at least half of the imported product is of a specialist nature not easily accessible in the UK.

That perhaps means that 10m tonnes can be displaced by UK coal. The hope is that by the time the subsidy is withdrawn, at the time of the coal industry's privatisation within two years, some of the reprieved mines will have got the costs down to a level where they can compete effectively with imports.

Perhaps some of the mines that British Coal no longer wants will be able to compete with imports in the private sector. However, few analysts believe that more than a handful of the reprieved or closing mines will survive in the long term.

The UK nuclear sector enters a new phase of uncertainty

Once more to Sizewell

BRITAIN'S nuclear industry experienced an uncomfortable winter awaiting the results of the UK's coal review. It emerged intact, and arguably fortified. Now it must go under the microscope, and this time there is much more at stake.

As part of the coal review the government brought forward by a year the nuclear review which it promised in 1989 when it decided, or was rather forced by the City, to keep the industry in the public sector rather than privatise it along with the rest of the electricity sector.

The government is expected to publish the terms of reference within the next few months and to launch the review later in the year. Environmentalists fear that the wide-ranging debate they have long hoped for will not materialise.

Nonetheless the review will set the framework and could decide whether Britain should build a Sizewell C nuclear station in succession to the Sizewell B station, in Suffolk, to be completed next year.

Separately, the nuclear industry is to learn – it hopes before the start of the nuclear review – whether it can commission the Thorp nuclear processing plant in Sellafield. A second public inquiry, following the first in the 1970s, is conceivable if unlikely for the £2.8bn plant which has orders, many from overseas, worth £9bn for the first decade.

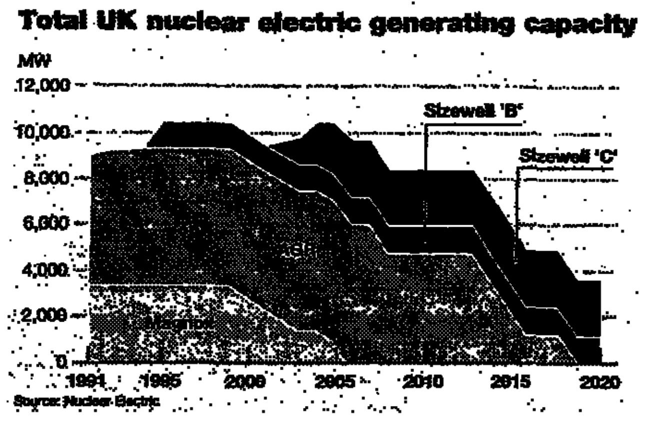
Nuclear industry executives go into this period of uncertainty armed with what they feel is ample evidence of the value of nuclear power.

Improved efficiency has helped Scottish Nuclear, one of the two state-owned nuclear electricity producers in the UK, to increase its output from 12.2 terawatt hours three years ago to 14.3 last year, a 25 per cent increase achieved from the same plant, and it expects 15.1 twh this year.

Two years ago it cost 3.2p to generate a unit (kilowatt hour) of electricity, but that is now down to less than 3p and the target for 1994-5 is 2.5p.

Meanwhile, Nuclear Electric, SN's much larger equivalent in England and Wales, has increased its share of the electricity market there to 23 per cent, up from 16 per cent in 1989-90. Staffing levels are falling fast, from 14,200 at the start of the decade to about 9,400 by next March.

Total UK nuclear electric generating capacity



According to Dr Robin Jeffrey, Scottish Nuclear chief executive, one of the main tasks he and his colleagues have to perform in the nuclear review is to tell the world that output and efficiency are going up and costs down. "We have a successful story to tell," he says.

The environment lobby disagrees, and is pressing for the review to be more wide-ranging than the government has indicated it will be. Dr Patrick

The nuclear lobby argues that nuclear power is a necessary ingredient of a balanced energy policy

Green, a Friends of the Earth campaigner, believes ministers want to limit the review to whether the "market" wishes to build new power stations.

That means, he says, that aspects including waste management, decommissioning, financial controls and government cover for future liabilities, will be brushed aside. That is a mistake, he says. "It is certain that before the private capital markets even begin to contemplate seriously the prospects of investment in new nuclear power stations, potential investors will want to know who will be responsible for covering risks and liabilites."

Behind this lies the belief among environmentalists that the UK is already seriously undercovered for future liabilities. FoE puts financial liability associated with the UK's existing civil nuclear installations at £30bn, nearly double industry estimates.

In a recent report, The National Audit Office said taxpayers may have to pick up some of the bill for decommissioning civil nuclear facilities, notwithstanding the £1.2bn a year paid by electricity consumers for the nuclear levy created to meet decommissioning costs.

One fear of Nuclear Electric is that pressure from large electricity consumers, backed by Offer, the electricity industry regulator, will lead to a reduction in the levy.

However, on another issue raised in the coal review, that of whether its eight Magnox stations should be closed early, the company believes it is safe. "Magnoxes have been examined thoroughly and we got a result," says Mr Bob Hawley, Nuclear Electric chief executive.

"The government says they should keep going for as long as they are economic and we will be pressing that their lives be extended."

If it loses the case for extension, Nuclear Electric's share of the England and Wales market will start to fall in the late 1990s from its likely high of 25 per cent next year when Sizewell B comes on stream. Scottish Nuclear will also be pressing for an extension of the life of its Hunterston B advance gas cooled reactor station. For both companies, however, the crucial issue is Sizewell C: Nuclear Electric because it will build and own it; Scottish Nuclear because Sizewell C's go-ahead would increase the chances of it building a new station, Hunterston C, for commissioning around the middle of the next decade.

Environmentalists and economists will mount a powerful case against Sizewell C. Nuclear building moratoriums are in place throughout Europe, often in countries with far less natural resource alternatives than the UK.

Britain has an energy surfeit for the foreseeable future, and the short term advantage of gas-fired over nuclear power is overwhelming. The £3.4bn cost of building Sizewell C compares with £290m which PowerGen, a rival generator, spent on building a station with two fifths of Sizewell C's projected capacity.

The nuclear industry's response also mixes environmental with economic considerations. Nuclear power is a necessary ingredient of a balanced energy policy, it says, because it has no carbon dioxide emissions and can therefore provide a future for coal, which has. Mr Hawley also argues that gas prices will rise. "The nuclear input price is next to nothing," he says. "Few people deny that nuclear will be needed two decades from now."

So why not build the stations then? "Put Sizewell C off and all project management skills will go," says Mr Hawley. Britain would lose countless opportunities to export its technologies.

In the review the government will need to consider where the money will come from. With its own resources *under pressure from a growing* public sector borrowing requirement, the chances are that it is likely to test the waters for private funds.

The last time it tried to interest the City in nuclear power it received an unequivocal negative response, the direct cause of the nuclear review now being planned. There is little to suggest that financiers have changed their minds about a nuclear industry in the private sector with what they see as uncertain liabilities for the past.

Michael Smith

Privatisation has altered the corporate culture, says **Michael Smith**

A shareholding workforce

WALK INTO the headquarters of the 16 privatised electricity generating and distribution companies in the UK and you will soon see a television screen relaying the latest share prices in the sector.

The information on the screens is in constant demand from senior executives to the humblest employees, nearly all of whom still have shares in their company bought at privatisation.

Employees tend to know how their company and its rivals are faring on the stock market.

According to industry executives the screens and the interest shown in them symbolise a cultural transformation which is producing a more competitive atmosphere than before privatisation.

The claims are exaggerated but there have been significant changes. Electricity companies have become more outward looking and more focused on what they should and should not be doing.

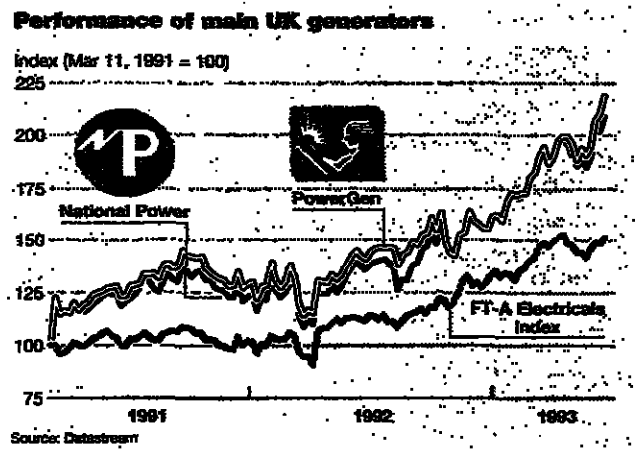
Although they are constantly attacked for making excessive profits – or rather the government is attacked for permitting them to do so – the standard of their service has not become a significant issue as it did for BT, after the *telephone system was privatised.*

According to Mr Stephen Littlechild, the industry regulator, companies have more than met the standards he has laid down. These include guaranteeing that electricity must be restored within 24 hours of a supply fault and replacing a company fuse within four hours.

A source of friction with poorer customers has been reduced by the 62 per cent drop in the number of disconnections in Britain.

The City approves such improvements – largely because it means there is also

Performance of main UK generators



less friction with the regulator – but it is much more interested in how the companies are raising their efficiency to influence profits.

Critics of privatisation feel that job cutting is viewed in the City almost as a virility symbol.

Thus Eastern Electricity, the largest company, was marked

The industry's regulator says that it has more than met the standards of service to customers that he set down. But the City is more interested in how it has raised efficiency to push up profits

down until recently because some analysts viewed its management as too slow to reduce its workforce. Its shares perked up this year following a job shedding announcement.

Few companies have matched the job cutting rate of National Power. Staff numbers there have been reduced from 17,000 at privatisation three years ago to less than 7,400 today.

The effect on profits has been dramatic, according to Mr John Baker, chief executive.

Productivity in the last year, when jobs have been reduced by 4,000, has risen by 25 per cent and salary costs by 12 per cent.

Mr Baker says this would not have been achievable if the company was still in the public sector.

"Management would have been invited to back pedal in the interests of political stability. In the new climate the *unions have been exceedingly* constructive. It is a different culture."

PowerGen, the other generator, is down to 4,900 staff from 9,000 three years ago. Regional companies have been cutting too but less savagely, they argue, because they had less fat. Midlands Electricity is typical having cut about 800 jobs from more than 8,000.

In cutting such large numbers electricity companies have taken active steps to avoid alienating those that are left.

South West Electricity, for example, hired Charles Smith Associates, a management consultancy which helped Rover improve its staff morale.

Performance related pay is also being introduced.

For example, Seeboard recently concluded a deal for more flexible working and performance pay with retail staff.

Some companies are also hoping to motivate staff by making down-line managers more profit-oriented.

East Midlands electricity recently rationalised 13 so-called cost centres into seven "profit centres". Headquarters staff is being cut accordingly.

In introducing all of these changes companies have been helped by a stream of healthy profits – some recs almost doubled profits in 1991-2 and are showing healthy rises last year. This in turn has enabled salaries to remain high.

The exceptions are retail and electrical contracting employees who have seen their salaries fall as management have brought salary structures in line with the market. Elsewhere higher than average salary rises have been common. This year, at a time when public sector rises have been restricted to 1.5 per cent, electricity workers have enjoyed rises above that, and in some *cases above 4 per cent.*

But the biggest financial gainers have been the senior executives.

Most chairmen and chief executives of regional electricity companies earned between £50,000 and £70,000 before privatisation and between £150,000 and £200,000 a year later and significant increases have followed.

If the rises continued last year – they will be revealed in annual reports in the next few months – the Labour Party, which opposed privatisation, and others are likely to make political capital.

Deborah Hargreaves: oil stays on the sidelines but a sticky newcomer is knocking at the door

Orimulsion gets a toehold in Europe

THE SHARE of oil used for electricity generation in Europe has been increasing recently because of low oil prices, but this follows a wave of shutdowns across Europe with many oil-fired power sta*tions lying idle* for much of the year.

Orimulsion – the bitumen-based fuel – is trying to make inroads into the European power market but has yet to make much of an impact outside the UK.

The high oil prices of the early 1980s forced a massive shutdown of oil-fired power stations across Europe. Governments are wary of becoming too dependent on oil-fired power because they could be held to ransom by Middle East producers over oil prices. As a result of these trends, much oil plant is held in reserve to cope with peaks in demand or to replace nuclear or hydroelectric power plants when they are not available.

Power generators in western Europe used some 80m tonnes of heavy fuel oil a year in 1980. By 1991 the use of oil for producing electricity had halved to 44m tonnes a year – with most closures being made by 1985.

Recent falls in oil prices have driven some countries to increase their use of fuel oil in power stations. According to the International Energy Agency, the OECD energy monitoring group, a large proportion of the power plants in Ireland, Italy and the Netherlands can be switched from gas or *coal to oil and vice versa at* short notice. Few countries are actually building new oil plant although some are looking at the use of orimulsion – a bitumen-in-water emulsion fuel produced in Venezuela.

Italy accounts for almost half of the oil that is burned in power stations in western Europe. It remained committed to oil-fired electricity long after many of its European neighbours had closed much of their plant, partly because oil had been the traditional choice of power station fuel in the country. It has no indigenous coal and Rome had imposed its own moratorium on building

Oil consumption has increased recently but it is still only a fraction of what it used to be before the world energy crises of the 1970s

nuclear plant.

Italian power stations currently burn around 800,000 barrels a day of oil to produce 28 per cent of overall electricity supply. This compares with 70,000 b/d in the UK, where oil plants make up 19 per cent of electricity capacity, and Portu*gal, which gets 25 per cent of* its electric power from oil.

Spain and France turn to fuel oil when they cannot obtain enough hydro-electricity, but have no plans to increase their exposure to oil. France has capacity to take 6 per cent of its permanent electricity supply from oil and, in Spain, oil accounts for 15 per cent.

The oil-fired generating capacity that remains in Europe is there more by chance than planning and few countries are looking to build new oil-fired stations. However, existing plants are cheap to run as oil prices have declined – crude oil is currently at its lowest level in real terms for 20 years – and they are less polluting because of a switch to low-sulphur fuel oil by generators.

About five years ago, Italian oil plants were using 90 per cent high-sulphur fuel oil, but the increasing cost competitiveness of low-sulphur oil and tougher environmental restrictions have prompted a move into the low-sulphur variety. The Italian electricity industry now uses around 80 per cent low-sulphur fuel oil and only 20 per cent high-sulphur.

The cost advantages of low-sulphur fuel oil means it will compete very strongly with the advent of orimulsion which is trying to break into the European market. So far, orimulsion has made an inroad only into the UK where two orimulsion-burning plants have been opened by PowerGen: Ince on Merseyside and Richborough in Kent.

The UK currently burns about 1.3m to 1.5m tonnes of orimulsion *a year. However,* National Power, the other UK generator, is considering a large development at Pembroke in Wales which would burn between 3m and 4m tonnes of orimulsion.

As Orimulsion is priced to compete with internationally traded coal, those who use it would not be exposed to volatile oil prices

Spain has also signed a contract for the use of 1m tonnes of orimulsion a year in its Fenosa Sabon station which has a capacity of 440 MW. But planning permits for the construction of the station have delayed its go-ahead.

The viscous fuel came under *heavy attack as a dirty fuel* in the recent debate about coal in the UK, but BP Bitor, its importer into Europe, argues that its environmental properties are no worse than those of any other fuel. The company points out that the fuel emits less dust, nitrous oxides and carbon dioxide than most British coal, but admits that it emits more sulphur than coal.

BP Bitor is hoping to import between about 20m into Europe by 2000 using the UK as a bridgehead. The company is hoping to increase this to 30m tonnes by 2005. and expects to see at least one more power station burning orimulsion in Europe by the end of next year. Demand is expected primarily from Portugal, Denmark or Italy.

Mr Simon Jacques, industry analyst at Caminus Energy, the consultancy group, believes the development of orimulsion will be a political issue: "It will depend on whether European governments will allow the utilities to sign contracts for the fuel."

Orimulsion is priced to be *competitive with international* coal prices which means that companies using the fuel would avoid exposure to highly volatile oil prices. Coal prices are expected to remain flat in the foreseeable future, but oil prices are also flat at the moment. If oil prices were to go through a volatile period of rapid increases, orimulsion could prove an attractive competitor.

BP Bitor points to the difficulties in getting agreement in Europe for any kind of power plant and believes it could take a lot longer for orimulsion to catch on than was originally thought.

"It's frustrating for us, having made the investments, that it takes a little longer for the market to consume it, but it's not going to kill the thing," it said.

Setback for EC state aid controls

EUROPEAN COURT

The European Court of Justice has overturned the Commission's 1991 communication on the transparency of financial relations between member states and public companies in the manufacturing sector.

The court gave its decision in judicial review proceedings brought by France challenging the communication. The challenge concerned the information which the Commission claimed to be entitled to request from member states by way of implementation of the 1980 directive on transparency in financial relations between member countries and the public sector.

The 1991 communication requires EC states to provide the Commission with an annual report of the financial assistance given by public authorities to public-sector manufacturing industry with over Ecu250m turnover in the previous financial year.

Details to be provided range from the annual report and accounts to every kind of aid including grants, guarantees, interest-free loans, capital investments and dividend information.

The purpose is to enable the Commission to assess the compatibility of the aid with the Rome Treaty and in particular whether investments have been made on a commercial basis.

The two main questions considered by the ECJ were whether the communication went beyond the scope of the 1980 directive and, if so, whether the Commission had identified the legal basis which gave it the power to do so.

The Commission claimed that the communication added no new obligation to those already imposed on member states by the 1980 directive. Accordingly, the communication could not be considered to have any new legal effects distinct from the 1980 directive. It was merely a particular measure applying the general information rules established by the 1980 directive.

The court ruled, first, that the obligation for EC states to communicate on a general and systematic basis data required by the Commission was not inherent in the 1980 directive. The latter required only that member states keep certain information on their financial relations with particular companies for five years and communicate it to the Commission on request. Since the communication adds new obligations to those in the 1980 transparency directive, it is an act intended to have its own legal effects.

Second, the ECJ found, therefore, that the Commission had breached the requirements of legal certainty, a general principle of Community law, in failing to indicate the legal basis for the communication.

The annulment by the ECJ of the communication is likely to throw into disarray the Commission's state aid scrutiny policy but will not necessarily affect the assessment of particular state aids granted by member states.

C-325/91: France v Commission, ECJ FC, 16 June 1993.

Matra loses state aid battle against Ford/VW

As a sequel to the recent *Cook* case, the ECJ has reconfirmed the principles relating to judicial review of Commission state aids decisions which it clarified in that case. The case concerned aid granted by Portuguese public authorities amounting to Esc97.44m for a Esc454m investment in a car plant by Ford and VW at Setubal. The majority of the aid was paid under the Portuguese regional aid policy approved by the Commission in 1988. Matra challenged Brussels' decision not to open a full investigation.

The court upheld the Commission's decision on the facts of the particular case. It found no grounds to interfere with the Commission's assessment of the risk of overcapacity in the industry or of the geographical disadvantages which Setubal undoubtedly had because of its distance from the main car markets.

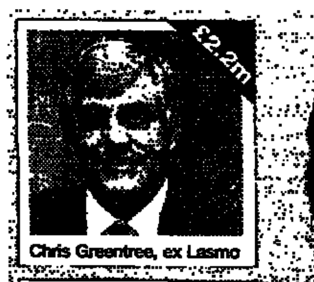
Applying the substantive principles on which the court says it can review state aid decisions made by the Commission, it considered that the Commission had not exceeded its powers of assessment.

C-225/91: Matra v Commission, ECJ FC, 15 June 1993.

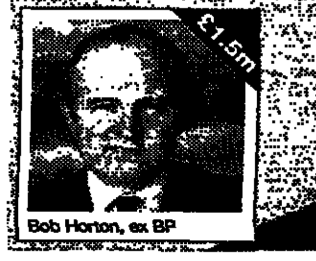
BRICK COURT CHAMBERS, BRUSSELS

The gravy train bumps along

The row over big pay-offs for UK corporate directors is picking up steam, writes **Robert Rice**



Chris Greentree, ex Lasmo



Bob Horton, ex BP


Postel's Alastair Ross Goobey

The letter from Mr Alastair Ross Goobey, Postel's chief executive, informing the chairmen of FTSE-100 companies that in future he is "minded" to vote against three-year rolling contracts for directors, has added a touch of spice to the row over big pay-offs for Britain's business leaders.

As head of the country's largest pension fund, which owns 2 per cent of most UK-quoted companies, Mr Ross Goobey's thoughts carry some weight in British boardrooms. His concern is not that executives receive excessive rewards for doing a good job but that they receive huge pay-offs having failed to come up to scratch.

The cause of these excessive payments is more often than not a three or five-year rolling service contract, which are permanently assumed to have three or five years to run before expiry.

Certainly there have been a number of well publicised pay-offs for senior executives in past 18 months. Lasmo, the oil services group, came under fire from shareholders earlier this year for a £2.2m pay-off to Mr Chris Greentree, its former chief executive. It was the result of three-year rolling contract. Glaxo is said to have paid about £3m to Mr Ernest Mario, its former chief executive and deputy chairman, after he resigned following a disagreement with Sir Paul Girolami, Glaxo's chairman. In March BP revealed that it had paid £1.5m to Mr Bob Horton when he was ousted as chairman last year.

These are just some of the bigger pay-offs in the past 18 months. But is it as worrisome a problem as Mr Ross Goobey suggests?

According to Pension & Investment Research Consultants, an organisation which advises shareholders on corporate governance issues, only 20 of the FTSE-100 companies have directors with rolling service contracts of three years or more. This may suggest long rolling contracts are less common than many believe.

Mr Richard Weir, director-general of the Institutional Fund Managers Association, confirms that a number of institutions has been exerting quiet pressure on the issue for some time, and the trend is now towards one-year contracts. Nevertheless, his members remain very concerned that there is still a sizeable number of companies where three-year rolling contracts for senior executives are the norm.

Not all fund managers and institutions, however, are in agreement that Mr Ross Goobey's solution – voting against the creation of three-year rolling contracts – is the best means for forcing the pace of change. Mr Weir says many of them feel it is inappropriate for institutional investors to interfere in what is essentially a management issue.

This has prompted the suggestion in some quarters that the real reason the institutions are reluctant to do anything about it is because many of their executives are themselves on three-year rolling contracts. Mr Weir says this is unfair. Five of the 20 FTSE-100 companies identified by PIRC as having directors with three-year rolling contracts are themselves institutional investors: BAT Industries (owners of Eagle Star Insurance), National Westminster Bank, Prudential Corporation, Royal Insurance Holdings and Sun Alliance. But on the whole, he says, "long-term contracts in the City are the exception rather than the rule." Two of his larger members, M&G and Mercury Asset Management, have switched to one-year contracts.

But if most institutional investors are not going to follow Mr Ross Goobey's suggestion and vote against all new three-year contracts, how will the executive gravy train be stopped?

Mr David Dalgarno, a company law partner with London solicitors Warner Cranston, believes large pay-offs are both legally unnecessary and arguably improper.

They are legally unnecessary because there is a duty on the departing director to mitigate his financial loss after losing his job. It should be possible even in the current employment climate for most senior executives to find another job within a year to 18 months, he says. No company therefore should agree to pay out much more than one year of a three-year contract except in exceptional circumstances, he says.

Large pay-offs are arguably improper because section 312 of the Companies Act 1985 makes it unlawful for a company to make any payment by way of compensation for loss of office without shareholder approval.

In reality, however, section 312 only applies to payments to directors in connection with their office as directors. It does not apply to payments in respect of any post they may have had as employees of the company.

More importantly, it does not apply to any payments which the company is contractually bound to make, nor to any bona fide payments by way of damages for breach of contract, or any pension payments in respect of past services. These exceptions are wide enough to ensure that the company's approval is rarely needed for golden handshakes.

One solution might be to reduce by law the maximum length of service contracts which can be agreed by a company's remuneration committee without shareholder approval. At the moment shareholder approval is needed for service contracts exceeding five years.

The Cadbury report on corporate governance recommended that in future service contracts should not exceed three years without shareholder approval. Even so, most companies believe that shareholder approval would still not be needed for three-year contracts.

Mr Dalgarno believes that the solution lies in changing the corporate culture towards executives' contracts. Few disagree with that. Mr Weir, for one, says that legislation would be "too inflexible and ways can always be found around it". The only alternative, he believes, is a market solution. Shareholders and fund managers must persuade companies to restrict service contracts.

The question is how to go about changing the culture. Mr Dalgarno says companies should be encouraged to move towards individual performance contracts which set out in detail what the director is expected to achieve. If those expectations are met then the rewards will be substantial. But there would be no pay-off for failure.

Mr Edward Walker-Arnott, senior partner of City solicitors Herbert Smith, agrees that a change in the culture is needed. But he would not link performance bonuses to job security. Unless the non-executive directors are very vigilant most incentive packages are not very well-policed, he says.

From the legal point of view the problem is caused by a combination of service contracts of more than a year and the refusal of the courts to make judgments in areas of incompetence. "Courts hate areas of business judgment. They are not going to say that alleged incompetence by a chief executive amounts to a breach of an employee's legal obligations towards his employer," Mr Walker-Arnott says.

The solution, he argues, is to "play it much tougher on contracts". There should be a presumption against service contracts of more than a year.

But companies are becoming increasingly aware of the adverse public impact of large pay-offs. Lawyers are just as likely these days to be asked about the perception of a severance deal as they are about the legal parameters of what is proposed, Mr Walker-Arnott says.

Mr Ross Goobey's solution may not be to everyone's liking but by focusing on the issue he may yet prove to have provided the brake that finally brings the executive gravy train to a stop.

LEGAL BRIEFS

Multinational partnership in London

Coudert Brothers, the world's oldest international law firm, will this week formally celebrate the creation of what is arguably the UK's first fully fledged multinational law firm.

Its birth has been a difficult one. Coudert has been operating in London as a US law firm since 1960 and in March 1990 joined forces with English solicitors Beharrell Thompson & Co, a firm specially created in anticipation of a relaxation in the English rules preventing solicitors joining in multinational partnerships.

The three-year delay in incorporating Beharrell Thompson into the Coudert fold was caused by initial difficulty posed by Law Society rules requiring registration of foreign partners, and because of negotiations between the US Internal Revenue Service and the UK's Inland Revenue on taxation of partners' earnings.

Coudert's London office has 24 lawyers – 20 solicitors, 3 US attorneys and one dual US/English qualified lawyer. The intention is to register 21 or 22 of Coudert's 130 partners as partners of the London office. The London partnership expects to expand to 40 lawyers by the end of next year.

Judicial review

Statistics show that applications for leave to challenge decisions of public bodies by judicial review have increased dramatically in the last decade. But these figures greatly exaggerate the use of the procedure and its effectiveness, according to a study by the UK's Public Law Project.

Any "explosion" in the use of judicial review has been limited to immigration and homelessness, according to the report. In other areas legal challenges to the decisions of public bodies are still infrequent and often unsuccessful.

CONTRACTS & TENDERS

PEOPLE

A different type of finance director

Building products and packaging group Norcros has filled the slot of finance director vacated when Robert Alcock was promoted to group managing director earlier this year by headhunting Gavin Morris, former chief executive of United Precision Industries.

"We were looking for a different type of finance director, not one from the narrow discipline of accountancy" says chairman Michael Doherty; he and Alcock are both from the profession "which is more than enough".

Morris does indeed have an atypical background for a finance director. Having gained a first in psychology from Edinburgh, with spells at universities in the US and Germany during that course, he worked for three years at Citicorp before taking an MBA at the University of Chicago. He then went to Bain for five years, before joining United Precision Industries as commercial director of the management buy-in of RHP Bearings. The company was restructured and sold to Nippon Seiko in 1990; he took over as chief executive from Alan Bowkett who went to Berisford. Since then he has been involved in merging NSK's European businesses - helped by his fluency in German and Spanish as well as his workable French.

At the same time Norcros, which has been going through a long restructuring phase, announced that EMAP group managing director David Arculus will join the board as a non-executive director. "Coming from the magazine and newspapers business he has a very different outlook on life" Doherty explains. "Producing a product that is waste paper tomorrow if you fail to deliver it to your customers gives you a far greater sense of immediacy." Arculus meanwhile has hitherto not taken on other non-executive positions; Norcros will give him his first taste of the world of manufacturing.

LET loses retail property director

John Newman is leaving London & Edinburgh Trust, the Swedish- owned property company where he is director in charge of retail property.

His departure comes at a time when the group is increasing its emphasis on investment rather than development. Newman, 59, was responsible for some of LET's largest development projects, including the Bull Ring in Birmingham, the Peacocks Shopping Centre in Woking and the Queen's Street development in Cardiff, which is under construction.

When Newman leaves at the end of June, his responsibilities will be taken over by Nicholas Sheehan, the group's managing director.

Newman joined LET in 1985 from Robert Fleming & Co where he had been director in charge of their property investment and development portfolio.

SPP, part of Trygg-Hansa, Scandinavia's largest insurance company, which bought LET for £491m in 1990, has been bringing the management of LET under increasingly direct control. John and Peter Beckwith, the founders of the company, resigned from the board last September.

■ Ian Fletcher has been appointed financial director of Amey-Hynd; Kevin Bailey has been appointed financial director of Compactors Engineering, also part of AMEY.

■ Alan Crane, formerly a director of Bovis, has been appointed ceo of the international consulting group of HUNTINGDON INTERNATIONAL HOLDINGS.

James Capel finds chief strategist . . .

Peter Chambers, head of international institutional equity management at Citibank Global Asset Management, is crossing the fence to become broker James Capel's chief investment strategist.

Alastair Ross Goobey and Martin Paling, Capel's strategy duo, both left earlier this year, and both for fund management jobs. Ross Goobey went to become the boss of Postel, running the country's largest pool of pension fund money; Paling, who then briefly stepped into his shoes as chief investment strategist, moved to Baring in May, and will be in charge of asset allocation in the Pacific and South East Asia based in Hong Kong.

Keith Skeoch, Capel's chief economist, points out:"Alot of clients do not think that strategy is done that well at brokers, which is why we wanted someone from the other side of the fence. Peter also has a much more up-to-date knowledge of the latest investment techniques from the coal face." Capel meanwhile offers Chambers "a bit more time to think" than he would have in daily charge of a large investment portfolio, as well as the chance to develop a much higher public profile, according to Skeoch.

In line management terms, Chambers will report to Skeoch but the latter says that the relationship will essentially be "primus inter pares" with the two on the road together making presentations.

At Citibank, Chambers had established a particularly consistent record in European equities. According to sources elsewhere in the market, important clients included the Sultan of Brunei.

He came to the City in 1981, after taking an MBA at Manchester Business School, to join Lazard Brothers, initially as a manager of UK pension funds and charities, and has been a client of Capel ever since.

. . . but loses top-rated analyst

Meanwhile, James Capel has lost another top-rated analyst as Neil Blackley, whose speciality is the media, leaves to join Goldman Sachs from the beginning of September.

"Goldman may not have the same distribution and research capabilities in the UK as Capel, but it has the strength in corporate finance throughout Europe" says Blackley, who will be looking at all of Europe.

At Capel, Blackley became well known for his early bearish stance on Maxwell Communications Corporation, so is it not ironic that he should be moving to a firm that has just been fined £160,000 by the regulatory authorities for its activities in relation to the late Robert Maxwell? "Capel got offered the MCC brokership twice and turned it down" says Blackley who acknowledges Goldman's association was a concern initially.

"But I am now convinced that Goldman is a very ethical firm and that this was an aberration occurring as the company was developing in a new area".

Blackley, 36, says one of the attractions is the prospect of working, in conjunction with the telecommunications analyst, on a study similar to one already produced for the US on the effects of digital compression on the media and other aligned industries.

"I have had quite a few offers over the years [though not from Goldman] but I had not felt inclined to leave until now" adds Blackley, who has been at Capel for the last decade.

Having sustained the number one slot for research in the Extel survey for eleven years, Capel has slipped in the last two years and now stands at number three.

A2

Back to real painting

William Packer admires the work of Michael Leonard

After the fatuities and empty posturings of the larger portion of the Venice Biennale, it is a relief to return to paint on canvas, properly achieved, and to work that draws directly upon the real and visible world. The apparatchiks and fellow-travellers of the academic avant-garde may find it hard to accept: it may be that never again will anything but the conceptually kite-marked – fauna in formaldehyde (Damien Hirst) or pseudo-profound philosophising (Richard Hamilton) – be allowed to represent us: but true painting goes on, as it always will, honourably, insistently, privately.

It was put to me in Venice that for an artist thus to consult his own experience was but self-indulgence. With the world falling apart less than a hundred miles away, was it not ever more the artist's duty to engage with the issues of the day – nationalism, capitalism, Aids or whatever. Pity the poor artist who came in from the incorrect side, but even so the idea was all, the means incidental, the technical quality of the statement irrelevant. The essential question was not: what is this work as art? It was: what is it about?

This is the greatest heresy. We no more require to be hectored in our politics or social morality by artists than by actors or singers. In Venice the proof lay all about us, where we could find Tiepolo at his most magisterial while waiting for the boat, and the greatest of Bellini on stepping off. And the point of such art was never the message itself, for the preaching was always to the converted. Rather it lies with what each artist did, technical mastery and the creative, humane imagination resolved into an integral whole. The artist's duty is only to get the work right as he knows it, that we may then test its integrity against our own experience. There is nothing self-indulgent in that.

Michael Leonard is unlikely ever to be asked to represent us at Venice, but he is nevertheless one of the most serious and particular painters of the figure that we have. As such he is a member of band as tiny as it is distinguished and as conspicuously neglected – Euan Uglow and Victor Newsome are others who come to mind, particular differences notwithstanding – whose work owes nothing to expressionism, nothing to immediacy or overt spontaneity of gesture, and everything to the long, unremitting study of the life-figure.

Leonard came to painting in *his late* thirties – he is now 60 – after an early career in graphic design. He had command from the start of a meticulous technique, but at first relied over-much on photographic reference for his imagery, with all the perceptual limitations that follow – the camera never lies, and never tells the whole truth. What makes his work so interesting and convincing now is that he has developed from that position without ever denying or abandoning it.

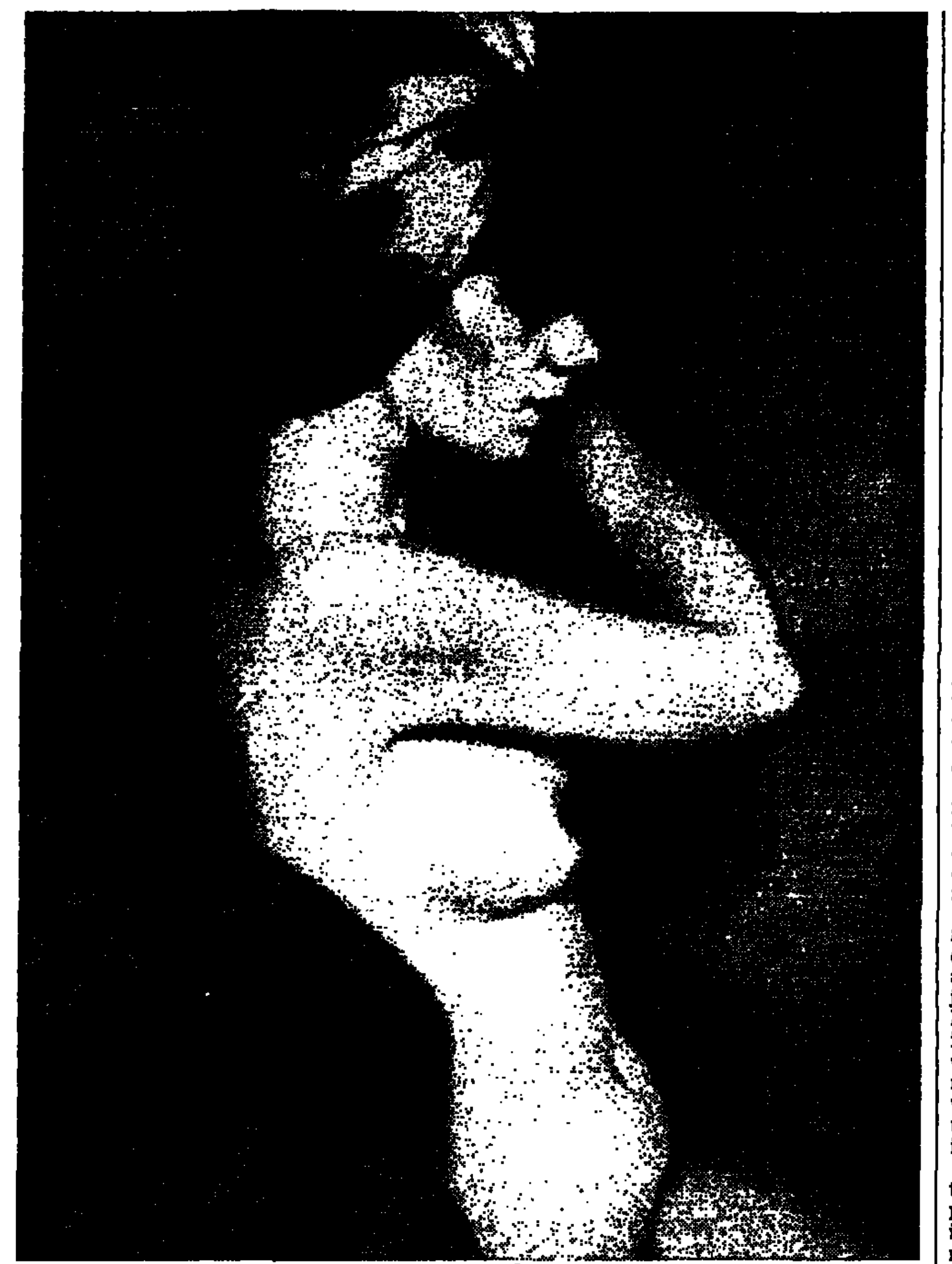
For the photograph has its uses, properly interpreted and understood, and Leonard clearly still makes much use of it. In the organisation of the composition especially, with the interruption of the figure by the frame, and in the close fore-shortening of the space, the influence of the camera is undeniable. In the actual disposition of the figure, too, in poses that if not actually awkward, are certainly unsustainable over an extended period, the photograph again is a necessary aid. And yet how much there is now in evidence that could only have been done before the model. The form is modelled deep into the shadows where only the eye could follow it, and through and across the lit form, close to the picture-plane, flesh and bone are described with a subtlety of surface variation, of tone, colour and texture, that could only have been picked up directly.

His single nude bathers, male and female, stoop and twist *to dry themselves*: the man touches his foot in the classic attitude of the crouching Mercury: the woman in profile reaches up to tie her headscarf. The echo is of Degas, but while the images as images recall the older artist, the quality of the paint itself is that of the young Degas, the surface highly finished, looking to Ingres and the romantic afterglow of neo-classicism. It is a potent and particular brew. My only reservation is with the painting of some of the heads of hair, that would seem to have been painted neither from model nor reference, but made up afterwards, a surprising inconsistency.

I end with two last-minute recommendations. The new Giorgio Morandi Museum at Bologna opens in October, which event has been anticipated at the Accademia Italiana, where five choice works from the collection have been on show for some time. This is the *final* week, next Sunday the final day. Two landscapes, a pot of flowers and two still-lifes cover the career, from the 1930s to the 1950s, of the most refined and exquisite painter of *our time, whose "self-indulgence"* in the thing seen, form in space established with the utmost simplicity, touches the heart, telling us more of what it is to believe than any polemic.

And Dennis Creffield has returned to painting after his graphic pilgrimage around the great churches of England and France. An extended stay at Petworth saw him installed in the very room and painting from the very window from which Turner took his own view out across the Park. While paying due respect to the distinguished ghost, Creffield made his own way and found his own Petworth, expressionist and idiosyncratic. The paintings of the South End facade, rising like palazzi on the Grand Canal, are especially impressive.

Michael Leonard: paintings & drawings; Thomas Gibson Fine Art, 44 Old Bond Street W1, until July 16. Giorgio Morandi: Five paintings from Bologna; Accademia Italiana, 24 Rutland Gate SW7, until June 27. Dennis Creffield: paintings of Petworth; Gillian Jason Gallery, 42 Inverness Street NW1, until July 2, then on tour to Petworth, Birmingham, Peterborough, Durham and Brighton: in association with the National Trust's Foundation for Art



'Girl in a Turban', 1991, by Michael Leonard

Maggio Musicale/**William Weaver**

The Magic Flute

The final opera presented at the Maggio Musicale in Florence was a new production of *The Magic Flute*, an event of great artistic merit, the sort of evening that, alone, justifies the existence of a festival. In the warm, intimate Teatro della Pergola, the brilliantly inventive Julie Taymor designed and prepared a fanciful, but never arbitrary staging that beguiled the eye and won the heart and, at the same time, set the spectator's mind to working.

Two qualities especially distinguished Taymor's achievement: painstaking care (rehearsals must have been many and rigorous) and intelligent coherence. While every stage-picture, every movement was magical, the whole concept followed a palpable internal logic. The airiness of the monsters – the long snake with large paper scales, handled by black-garbed assistants; the billowing kite in the form of a bear – was enchanted, but they also held a menace that was as real to the audience as it was to Papageno.

There was no sign of the Disneyfication of the story, no cuteness; and the initiatory trials were genuinely awesome, just as the trial of Tamino and Pamina by separation and imposed silence was fraught with convincing pain. The noble sentiments of the libretto were not ignored, but rather underlined by the visual severity of the rituals.

Julie Taymor's long stay in the Orient has enriched her producer's vocabulary immensely, and this *Flute* had not only Javanese and Chinese ingredients (discreet use of shadow figures), but also elements from Kabuki (Tamino, identifying himself as a prince, stamped his foot in a typical *mie* gesture) – in the final encounter between Papageno and Papagena on a raised platform – a reference to Punch and Judy. But all these components were used naturally, as part of a universal and wondrously rich language of theatre.

Fortunately, the singers were not only excellent musicians but also pliable actors, especially Manfred Hemm, a genial Papageno, who won laughter and applause without any hamming or any sacrifice of his attractive singing. Deon van der Walt was a sober, impassioned Tamino, and Matthias Hoelle, though the voice was not entirely even, made a noble Sarastro. Sumi Jo was an appropriately exotic, icy Queen of the Night, and – chief Italian representative in the cast – Mariella Devia was a Pamina of distinction, perhaps somewhat lacking in tenderness, but musically admirable and also natural in her movements. The three ladies (also Italian), superbly masked and costumed, performed with wit and style. The three boys (soloists from the Toelzer Knabenchor), chalk-white and silver-bearded, seemed truly to arrive from another world. The Monostatos of Sergio Bertocchi, shameless in his politically incorrect assertions, added a properly grotesque touch.

After his sorely disappointing *Carmen* earlier in the festival, Zubin Mehta drew some good playing from the scaled-down Maggio orchestra, though – as in the Bizet – *there was little flair or vitality*, and at times, notably in Pamina's music, the conductor seemed to be dragging his feet. But any deficiency on the podium was forgotten in an otherwise thrilling, indeed unforgettable performance of this great, but often elusive masterpiece.

Concert/**David Murray**

A Rite to remember

There are conductors – almost a majority, these days – who act out the music, and others who just conduct it. Pierre Boulez is one of the latter. With the London Symphony at the Barbican on Sunday, his chosen programme would have inspired many another maestro to strenuous histrionics: Schoenberg's expressionist Five Orchestral Pieces, the athletic First Piano Concerto of Bartók, Stravinsky's *Rite of Spring*. Boulez found it sufficient to give small, precise indications to his superbly rehearsed players: watching him on a silent film, you could hardly have guessed what kind of music he was conducting, but the audible results were magnificent.

Schoenberg's 1909 pieces were his first atonal foray with orchestra. Ingenious conductors can dress them in shot-silk hues, to make them more audience-friendly, or administer violent shocks to keep everybody on their toes. Boulez did neither, but kept their own strange colours dry and lucid: one heard much more of the inner workings than usual, with a great gain in cogency. The effect was to convey an uncommonly wide range of expression, not just expressionism. The original force of the music was recaptured with authority.

With Daniel Barenboim as a powerful soloist, the Bartók concerto began sternly and roughly. The pianist's motor-driven octaves splashed a bit, and he allowed himself so much sustaining-pedal as to blot and thicken some passages in the first Allegro where a tight, unambiguous pulse should guide the ear. With the slow movement, however, Barenboim collected himself for his concentrated best (with some beautiful wind-playing, too), and thereafter the performance was a model of intensity.

As for the *Rite*, Boulez and the *splendid LSO gave it a* memorable re-creation. Any good account of this work should leave a potent impression, but this conductor's grasp of the score is probably unequalled now. Not only did it sound fabulous – and *authentic*, without extra colouristic tricks or wilful sideslips; it was paced with a sovereign confidence that betokened long, searching attention to Stravinsky's construction, and carried the music inexorably forward to the last cataclysm. The audience was wholly gripped: *exciting Rites* are not so rare, but only once or twice in a decade are we made to hear what a towering masterpiece it is.

Theatre/**Malcolm Rutherford**

Groping for Trouts in a Peculiar River

I had forgotten until bombarded by a *series* of missives from the Sturdy Beggars Company that "groping for trouts in a peculiar river" is a line from Shakespeare's *Measure for Measure*. It comes just after Mistress Overdone has lamented: "Thus, what with the war, what with the sweat, what with the gallows, and what with the poverty, I am custom-shrunk," the suggestion being that all is not well in the state of England, as indeed around 1604 it wasn't. There was a war with Spain, a plague in London, executions at Winchester, not to speak of a general economic recession.

Measure for Measure has always seemed the most complex of Shakespeare's plays and quite different from the rest in that it seeks to pose a genuine moral dilemma. Should Isabella sleep with Angelo in order to gain a pardon for her brother, Claudio, who is about to executed for adultery? Or should Claudio understand that such an act would be a sacrifice too far for a woman who is about to become a nun, and prepare to meet his death?

There is also a strongly political content. The old paternalist Duke has departed and ceded power to a man who is expected to clean up the liberal excesses of the *ancien régime*. It turns out that his appointed deputy, who in this production looks remarkably like an earnest Tory prime minister out of his depth, is not nearly as pure as he seems.

So it is not surprising that the Sturdy Beggars, a newish company that combines a lot of the 1970s/80s British left, should have gone in for an update. Here is a good half of the original *Measure for Measure*, plus modern glosses. For example, Marianna, the girl who happily stands in for Isabella in the dreadful deed, turns out to be the daughter of a press baron, Robert Melville. She has known Angelo at Cambridge and is more than willing to return to him. There are many other references spread over history. You will find Mancini, Sergeant Musgrave and Robert Browning listed in the programme, and a *heavy* police presence all round.

Some of it is very well done. I liked the nuns playing scrabble with the letters in what looks like the silver communion cup and taking delicious pleasure from triple word scores. All the original Shakespeare lines are very well-spoken, especially by Richard Attlee as Angelo and Gerard Doyle's Claudio.

Even for the most politically-minded, however, translating *Measure for Measure* into a parable for the British left raises insuperable questions. In so far as it reaches a conclusion at all, Shakespeare's play seems to say three cheers for paternalism. It is rather like the Labour Party singing "Jerusalem", nostalgia for the past rather than belief in the future. Does the new left really regard benevolent despotism as the last best hope?

There is a more practical reservation. *Measure for Measure* is a complex enough play to start with. It is hard to expect to bring in a new audience by chopping it up. You will have to be quite well read, not only in Shakespeare, to have much of a chance of following it. The very professional direction is by Stephen Jameson who is also responsible for the adaptation. And *Groping for Trouts in a Peculiar River* is a very good title.

Battersea Arts until July 18. (071) 223 2223

Theatre/**Alastair Macaulay**

Backstroke in a Crowded Pool

What happens when folk try swimming backstroke in a crowded pool? Lynsey and Chrissie, two young female lifeguards standing on the brink, know only too well. They spend their time trying to stop collisions and drownings; and this play plunges headlong into the hectic comedy of pool life, with the two girls keeping up School of Joyce Grenfell ("Don't do that, George") lines on the scores of people in the water. We soon know which lane is for beginners only, what their colleague Melvin is like, and which chaps these girls find most gorgeous.

It is part of the skill of Jane Coles's new play that we have been busy laughing at all this before we realise that the pool is also a metaphor for our modern society, in which Lynsey and Chrissie have to swim along too. Lynsey has fallen for Hashim Jalib, a handsome young Moslem. No minor crush this: she prays to Allah, reads the Koran, plans to become his worthy wife. And Hashim has eyes only for her. There are advantages to such a liaison; Moslems don't drink, and my favourite line in the play comes when Chrissie remarks wistfully "Imagine being made love to by someone who's sober."

Coles shows us not only Hashim and Lynsey, but their mothers too, neither of them racist. Fahmida Jelib, in fact, is the best-realised character in the play, wise, patient, religious and droll; and her sequiturs are more disconcertingly funny than most people's non-sequiturs. But Lynsey's mother Carol is a militant animal-rights campaigner, opposed to the ritual sacrifices of Islam. When the pool is this crowded with conflicting creeds, who can swim backstroke? (At the pool, the lifeguards keep remarking "The pool's getting too crowded . . . And they're still letting more people in." Very Winston Churchill.)

So much about this play is so acute, and its mix of humour and serious social drama is so deft, that I wish its faults were invisible. Sometimes, however, it nervously overdoes comic touches (as at the end of Act One); or overdoes its pool symbolism (in Act Two). The big Islam-*vs*-animal-rights dialectic in the Act Two dinner-party comes too pat. And the ending manages both to be too ambiguous about Lynsey and too ickily optimistic about Chrissie.

A more obvious problem is that John Dove, directing, has the cast of five speak Coles's lines all at one speed, with minimal change of tempo or dynamics. Most of them do nice work in characterising their roles – especially Leena Dhingra as Mrs Jelib, Sophie Stanton as Chrissie, and Raji James as Hashim – but with all of them there are creaky patches when we are reminded that they are reciting lines they have learnt.

But, though these real flaws diminish the play, they by no means wreck it. Coles not only manages to make the different home-lives of Lynsey and Hashim equally real, she also brings off excellent scenes between Lynsey and Mrs Jelib, and between Carol and Chrissie. No one in Britain today could watch *Backstroke* without feeling its relevance, or sensing how much it manages to achieve. It is, by the way, the product of an association between the Royal National Theatre Studio and the Bush, and one of the several emotions it prompts is hope.

At the Bush Theatre, W.12, until July 24

INTERNATIONAL ARTS GUIDE

ANTWERP

ANTWERP 93
The highlight of this week's drama programme is a visit by Deutsches Theater Berlin with Heiner Müller's *Shakespeare adaptation* entitled Hamlet Maschine, at Stadsschouwburg tomorrow, Fri and Sat. The music programme includes late evening performances by an Indonesian Gamelan orchestra at the Ethnographic Museum on Fri and Sat (226 9300)
FLANDERS OPERA
The final production of the season is Manon Lescaut, the latest in a Puccini series staged by Canadian director Robert Carsen. Evelino Pido conducts a cast led by Miriam Gauci and Fabio Armiliato. Final performances on Thurs, Sun and next Fri (233 6685)

■ AMSTERERDAM

Muziektheater Tonight and Thurs: Dutch National Ballet's Frankenstein programme, choreographies by Balanchine, *Wayne Eagling and* Laurie Booth. Tomorrow: Simon Rattle conducts final performance of Peter Sellars' Holland Festival production of Pelléas et Mélisande, with Philip Langridge, Elise Ross and Willard White (625 5455)
Concertgebouw Tomorrow: Claus Peter Flor conducts Royal Concertgebouw Orchestra in works by Schumann and Shostakovich. Fri: Simon Rattle conducts Rotterdam Philharmonic Orchestra and Netherlands Opera Chorus in Berlioz's Roméo et Juliette. Sun: Dennis Russell Davies conducts Radio Philharmonic Orchestra in works by Harrison and Gorecki (24-hour information service 675 4411, ticket reservations 671 8345)
Beurs van Berlage Fri, Sat, Sun: new work by Anne Teresa de Keersmaeker (627 0466)

■ BRUSSELS

Monnaie Tonight, Thurs, Sun and next Tues: Antonio Pappano conducts Kurt Horres' production of Die Meistersinger von Nürnberg. José van Dam and Hartmut Bauer alternate as Hans Sachs. The cast also includes Dale Duesing as Beckmesser and Margaret Jane Wray as Eva (219 6341)
Palais des Beaux Arts Tonight and tomorrow: *prizewinners of the* Queen Elisabeth Violin Competition are soloists with the Liege Philharmonic and Royal Flanders Philharmonic Orchestras (507 8200)

■ BREGENZ

The summer festival opens on July 21. The outdoor opera production this year is Nabucco staged by David Pountney, designed by Stefanos Lazaridis and conducted by Ulf Schirmer. Jonathan Miller stages Giordano's Fedora in the Festspielhaus, with a cast led by Mara Zampieri, conducted by Fabio Luisi. Rafael Frühbeck de Burgos, Pinchas Steinberg and Donald Runnicles conduct concerts with the Vienna Symphony Orchestra, and Vladimir Fedosseyev conducts the Moscow Radio Symphony Orchestra in the final concert on August 23 (Bregenzer Festspiele, Postfach 311, A-6901 Bregenz, Austria. Tel 5574-492 0223 Fax 5574-492 0228)

■ CHICAGO

RAVINIA FESTIVAL
Tonight's guest artist is Pat Metheny, followed tomorrow by Michael Feinstein and the festival orchestra, and on Thurs a Shakespeare evening with Claire Bloom. Mariss Jansons conducts the first two concerts by the Chicago Symphony, featuring Alessandra Marc in Strauss's Four Last Songs on Fri and Itzhak Perlman in violin concertos by Bruch and Brahms on Sat. James Levine conducts his final concert as festival music director on Sun, with a programme of Stravinsky, Strauss and Beethoven. Beaux Arts Trio are guest artists on Mon. The festival runs till early September. All concerts are broadcast to the lawn for outdoor listening. Lawn admission is always available (Tel 312-728 4642 Fax 708-433 4582)

■ FELDKIRCH

The annual Schubertiade, now permanently transposed from *Hohenems to Feldkirch, focuses* this year on Schubert's Goethe settings. This week's recitalists include Stefan Vladar, Boje Skovhus, Olaf Bär, Brigitte Fassbaender, Andras Schiff, Thomas Zehetmair, Tabea Zimmermann and Tokyo String Quartet. Peter Schreier conducts a concert performance on Sat of Schubert's incomplete opera Claudine von Villa Bella. The final concert is on July 3 (Schubertiade Feldkirch, Schubertplatz 1, Postfach 635, A-6803 Feldkirch. Tel 5522-38001/ Fax 5522-38005)

■ GENEVA

● The season at the Grand Théâtre ends with performances of Le nozze di Figaro tonight, Fri, next Mon and Wed. Armin Jordan conducts a staging by Nicholas *Hytner, with a cast led by Marie* McLaughlin, William Shimell and Ferruccio Furlanetto (311 2311)
● Neeme Järvi conducts the Suisse Romande Orchestra in a series of Stravinsky programmes over the next two weeks at Victoria Hall. Tomorrow's concert includes the First Symphony and Violin Concerto (Lydia Mordkovitch). The remaining concerts are on June 29 and July 2 (311 2511)

■ ROTTERDAM

De Doelen Tonight: Simon Rattle conducts Rotterdam Philharmonic Orchestra and Netherlands Opera Chorus in Berlioz's Roméo et Juliette (217 1717)

■ THE HAGUE

Dr Anton Philipszaal Thurs and Sat: Samuel Friedmann conducts Hague Philharmonic Orchestra in all-Beethoven programme, with soprano soloist Carole Farley. Fri: Claus Peter Flor conducts Royal Concertgebouw Orchestra in Schumann and Shostakovich (360 9810)

■ VIENNA

Staatsoper Tonight, *Fri* and next Mon: Turandot with Eva Marton. Tomorrow: John Neumeier's ballet A Midsummer Night's Dream. Thurs and Sun: Lohengrin with Thomas Moser. Sat: Giselle (51444 2955)
Musikverein Tonight: King's Singers (505 8190)

■ WASHINGTON

KENNEDY CENTER
The World Goes Round, an award-winning musical celebrating the careers of composer John Kander and lyricist Fred Ebb, runs daily till Sun at Eisenhower Theater. Andrew Lloyd Webber's musical The Phantom of the Opera, directed by Harold Prince, opens for a three-month run at the Opera House on Sun (202-467 4600)
THEATRE
● Sylvia's Real Good Advice: a musical comedy inspired by cartoonist Nicole Hollander's comic strip. Till July 11 (Horizon Theater at the Marvin Center of GWU 202-994 6178)
● Strindberg in Hollywood: Drury Pifer's play about the 19th century dramatist in 1993 Hollywood. Till July 18 (Woolly Mammoth Theater 202-393 3939)
MUSIC
Blues Alley Jazz Supperclub Tomorrow: Kim Jordan, piano and vocals (1073 Wisconsin Ave, in the alley, 202-337 4141)
Merriweather Post Pavilion Tomorrow: Spin Doctors and Soul Asylum. Sat: 10,000 Maniacs and World Party. Sun: Baltimore Symphony Orchestra. Next Mon: Little Feat. Tues: Steve Miller. July 8: José Carreras (301-982 1800)

■ ZURICH

OPERA
Tonight: Ponnelle production of Die Zauberflöte. Tomorrow, Fri, next Tues: Rafael Frühbeck de Burgos conducts Cesare Lievi's new production of Ariadne auf Naxos, with Gabriela Benackova, Edita Gruberova, Josef Protschka and Hermann Prey. Thurs and Sun: Ralf Weikert conducts Bob Wilson's staging of Lohengrin, with Gösta Winbergh, Lucia Popp and Anja Silja. Sat: ballet mixed bill, works by Bienert, Uotinen, Nijinsky and Saint-Léon. July 1, 4: Carmen with Baltsa (Opernhaus 262 0909)
JAPAN IN ZURICH
Hoichi Okamoto and his life-size puppets are in residence this week at Zurich's Puppet Theatre, daily till Sat. Räto Zschupp conducts Camerata Zurich in works by Handel, Takemitsu and Bach on Fri at the Tonhalle. Next Mon: Maurice André is trumpet soloist with Zurich Chamber Orchestra featuring works by Telemann, Leclair and Sadao Bekku. Tickets and further details about the festival from Billettzentrale am Werdmühleplatz (221 2283)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: *Exhibitions Guide.*

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Matters of opinion

Christopher Bobinski on poll-taking in east Europe

East Europeans no longer have to fear the early morning knock on the door. When they hear someone outside these days, it is likely to be an opinion pollster rather than the secret police.

The calls are becoming frequent as local and western academics, and financial institutions such as the World Bank and the International Monetary Fund, send out researchers to check the pulse of societies, applying free-market prescriptions to their formerly state-run economies.

One of the latest polls, carried out by the European Community along with the Gallup organisation, showed that the Albanians are eastern Europe's most "optimistic" people, while the Russians are among the least satisfied with the direction their country is going in.

Demand for such information has spawned a small but growing industry of private local polling organisations, some operating alone, and others, such as Emor in Estonia, working alongside groups such as Gallup. Industry estimates for 1991 suggest that 5 per cent of worldwide polling funds were spent in the former Soviet bloc countries.

Local academic sociologists and psychologists are pitching in too, eager to catch up on years when the communist authorities frowned on a pastime which revealed opinions they preferred not to hear.

There are few government-funded research organisations in eastern Europe, along the lines of the many national institutes in the west – the former communist states did not feel the need for such organisations.

Today, the climate has changed. Researchers in eastern Europe say that most people they poll are eager to express a view. "They see it as a way of taking part in politics," says Ms Cynthia Kaplan, a student from the University of California, who is studying political participation rates in Russia and Estonia.

Up to 85 per cent of east Europeans agree to answer questionnaires, according to the pollsters, in contrast with the UK or the US, where people with clipboards are lucky to get a response rate of more than 60 per cent.

But in Russia, at least, there is still mistrust. "There are some problems with senior military men," says Ms Elena Bashkirova, head of Romir, a Moscow-based private polling company. "Army people in general are wary and do not like to answer questions." Ms Elena Koneva of Comcon 2, another private company, adds that some people "refuse to talk about the consumer-durable goods they have at home in case burglars should hear about it".

Nevertheless, a post-communist enthusiasm for expressing a view means that opinion polling in eastern Europe is producing findings that are more thorough and accurate than most polling in the west, according to Ms Meril James, Gallup's international co-ordinator.

"The quality of the research is incredibly high, it's still a prestige business," says Ms James, who recently addressed a seminar organised by the World Association for Public Opinion Research, held in Tallin, capital of Estonia.

'The quality of the research is incredibly high, it's still a prestige business'

Demanding information about the nation's political views was part of the struggle for his country's independence in the 1980s, says Mr Andrus Saar, an Estonian who owns Saar Poll, a private company. An opinion poll carried out in Estonia in 1984 was kept "under lock and key" for four years, until the Gorbachev era of reform began to ease the atmosphere in the region.

Other experiences of the communist era have helped to create a particular abhorrence among many east Europeans for the manipulation of opinion poll findings by politicians. In Lithuania, for example, Ms Rasa Alisauskiene, from the Baltic Surveys private polling company, recounts with disdain how the governing party banned the publication of poll results 30 days before recent parliamentary elections "because the figures looked bad for them".

Such action is increasingly likely to draw a hostile response, since the opinion polls themselves in several former socialist countries such as Estonia and Poland reveal a feeling among ordinary people that the politicians are failing to act in their interests.

This is not to say that there is any more of a guarantee in eastern Europe than elsewhere that interviewees will always respond truthfully. Just as the polls inaccurately forecast election results in Britain, local exit polls in Lithuania underestimated by 12 percentage points support for the country's former communist leader, who was returned to power as a Democratic Labour candidate. People were apparently unwilling to admit they were voting for a former communist.

One great advantage for east European polling companies is that they have access to vast amounts of data compiled in the communist era. Throughout eastern Europe, police have detailed residence records. Russia and other former Soviet republics also have lists, originally compiled for the issuing of ration cards, as good as any electoral registers in the west.

The data enable east Europeans to get a more accurate cross-section for polling and to interview named people for their research: this method is seen in the industry as potentially more accurate because it virtually rules out falsification of results.

And according to Ms James, the cost of carrying out polling is still relatively low in eastern Europe mainly because of much lower wages in the east. Whereas in Britain, estimates suggest it would cost the equivalent of some $8,000 to have a sample of 1,000 people asked five questions, the Moscow-based companies would charge between $3,000 and $4,000 for a 1,500-strong sample throughout Russia.

It was against this low-cost background that the EC last autumn carried out perhaps the most ambitious opinion poll ever undertaken in the region. The Eurobarometer poll of 18 former communist countries revealed that, while the Czechs and Slovenes are among the happiest people in eastern Europe, one-third of the region's total population wants to live and work in the west.

Joe Rogaly

Herculean tasks for new Tory hero

Mr Kenneth Clarke regards the role of chancellor as above all political. He is right. Power is generated by skilful politicking; without it, the part played is that of a mere office-holder. We should not, therefore, be surprised that Britain's new finance minister spent the first three weeks in his new job setting a tone, establishing a mood, ensuring that the signals he sends out are correct and in tune with the electorate's aspirations. Only now, in his fourth week, does he feel that his base is prepared. That achieved, he is ready for the detailed in-house planning sessions that occupy a chancellor's diary.

When he arrived at No 11 Downing Street on May 28 he noted with relief that there was no urgent economic crisis to be faced. His experience on Black Wednesday, when for a few hours the technicians ran the country and elected ministers were impotent, was one he regards as the worst of his political life. On the morning after Mr Norman Lamont's downfall, in contrast, the foreign exchange and stock markets were calm. The political marketplace was, however, turbulent. He could not afford to take a month or so off from the airwaves in order to read himself in, as he had done in several new ministries before. The equilibrium of the government had to be re-established.

The new chancellor decided that his first priority was political. He spent much of his time thinking about three set-piece speeches: one to the parliamentary press gallery, one to wind up the economic debate in the Commons and, finally, his Mansion House address. All were well received. He accepted, and kept, many media engagements. He spread himself, and his message, as widely as he could. What he put across was that he was a believer in low inflation but, concurrently, a proponent of growth.

This seems impossible, at least to me. No other chancellor has achieved both objectives simultaneously. Going for growth and damn the inflation would win Mr Clarke the Tony Barber award for fiscal irresponsibility. He believes that he understands this, and can avoid it. He will be put to the test next spring. It is then, in April 1994, that the changes in value-added and fuel tax provided for in Mr Norman Lamont's last budget will hit the retail price index. For a few months it may be impossible to keep inflation below 4 per cent. What then? To judge by the demeanour he has adopted so far, Mr Clarke might well ask whether the rise in prices was merely a one-off blip caused by the government's own taxation policy. If so, he would probably resist an increase in the rate of interest, however persuasively the new governor of the Bank of England, Mr Eddie George, put his familiar counter-inflationary arguments.

If, however, more insidious inflationary pressures were identified at the same time – if, say, sterling was falling sharply – interest rates might well be increased. Mr Clarke remains, for all his experience of the day Britain was ejected from the European exchange rate mechanism, a believer in managed rates. He has said loudly enough that he knows there can be no rejoining of the ERM in this parliament. He would want a Soros-proof system in place first, but he has never said never. A steep devaluation would be inflationary. No one can predict monetary policy. But what I have outlined is the kind of approach ordinary people expect of a chancellor who has advertised himself as confident, relaxed, a repository of common sense.

Going for growth and damn the inflation would win Clarke an award for fiscal irresponsibility

In consequence he has become, perhaps for a fleeting moment, the most powerful man in Mr John Major's government, the prime minister included. He is certainly the most self-confident. Where Mr Lamont was subject to the prime minister's authority, his successor may, without saying so, assume that he is virtually unsackable: that in any stand-off, it is not necessarily the first lord of the treasury's view that will prevail. Today, Mr Clarke has the bulk of the party (its Thatcherite wing excluded), the media, and presumably much of the country rooting for him. He would take pains to aver that Mr Major can nevertheless sleep safely in his bed at night. Let us be charitable. Let us believe this. For the media, and the public, will turn against him whatever he says. Anyway, in policy terms Mr Clarke sees himself as a carbon copy of the prime minister, with the latter only marginally less pro-European than he is. He would argue that if Mr Major were to go down, his chancellor would perforce go down with him.

Clarke: the most powerful man in the cabinet, Major included

The new Tory hero's second immediate task was to steer the public spending targets announced last Thursday through the cabinet. He regards the commitment to a real growth in expenditure no larger than the growth in the economy as the toughest that political realism will allow; anything more severe might not get through a Commons in which the government's majority is dwindling and the Conservatives are divided. To those who complain that the ceilings on the next three years' outgoings are not low enough, he might reasonably respond that what was agreed last week was one contribution to reducing the anticipated £50bn public sector borrowing requirement. It is open to him to tighten fiscal policy further in November, when the first unified budget is presented. No one has been able to pin him down on whether that means further tax increases or further spending cuts; his instinct is that if the public finances look as dire then as they do now he may have to do both. Mr Clarke draws strength from the fact that most people know in their hearts that this is probable.

He has the bulk of the party, the media, and presumably much of the country rooting for him

Those little matters out of the way, the new chancellor is embarking on a series of internal meetings on selected topics. This week he will review options for increasing the flow of private capital into public projects; next week's subject is small business and what can be done for it. After that they will debate tax policy. No decisions will necessarily be made at any of these educative sessions, unless Mr Clarke is suddenly struck by a blinding truth at any one of them. The chancellor starts with a prejudice in favour of fewer allowances and low rates; perhaps the lightning will strike there.

He is not one for economists brought in from outside. His predecessor's advisers have gone. Mr Lamont's council of wise men was invented to protect shell-shocked Treasury officials from the full blast of public opprobrium. It will not be disbanded, but I would not place much money on it exerting a great deal of influence under the new Treasury regime. Mr Clarke is proposing to consult a few people he regards as leading industrialists who understand the economy, Sir Graham Day and Lord (Jeffrey) Sterling among them, but, in the main, he is heaping praise on his demoralised officials and listening to what they have to say.

Before we all groan that this means more of the mistakes that have dogged us for so long, we should clutch at the one straw available. It is that huge self-confidence, the feeling inside the new chancellor's soul that he has the ability to pick the best advice, and distinguish the officials who give it from the ones who do not. He will be doing that, probably working harder than perhaps ever in his life before, when he returns from the August holidays to prepare the unified budget.

I recall discussing the use of economists in the Treasury with Mr John Smith when he was shadow chancellor. Mr Smith, like Mr Clarke a lawyer, intimated that economists are two a penny, buyable with pre-knowledge of their opinions. What was needed at the Treasury was political nous, an ability to pick out what would work from what would not. It is that quality that we must tell ourselves is now being deployed on our behalf by Mr Clarke. He is one of the most experienced members of the government, and he is not a fool. He has made a good start. Only a sour old cynic like myself would cast the slightest smidgen of doubt on the finish.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Thorp: doubts about Japan's needs and the plant's future

From Dr Jinzaburo Takagi and Ms Aileen Mioko Smith

Sir, We would like to respond to the letter of Mr Kohji Kaneko, general manager of the nuclear power department of the Federation of Electric Power Companies of Japan, regarding Thorp (June 18). Actions speak louder than words. MOX fuel – a combination of plutonium and uranium fuel – would be the single greatest user in Japan of Thorp plutonium. If Japanese utilities really support reprocessing, why have they not taken any concrete steps to fabricate and burn MOX fuel in their commercial reactors? When the utilities say they support Thorp, what they are wanting is a return on their investment, not the product to be supplied by Thorp.

It is a travesty to mislead the people of the UK into thinking that Japanese utilities need more plutonium. The reality is that Japan's plutonium utilisation programmes are so far behind schedule that they simply cannot absorb the plutonium Thorp will produce. In contrast with other commodities, plutonium is a material capable of being made into a weapon and cannot be stockpiled without risk.

Whether the Japanese desire it or not, they will have to reduce supply in order to avoid a surplus. If Japanese demand for plutonium is low, Thorp will be a disastrously uneconomic plant to operate.

What Japan needs to submit, and what the UK Foreign Office and parliament must obtain, are not merely "we fully support Thorp" statements from Japan, but concrete data on the real demand – if any – that Japan will have during this coming decade for Thorp plutonium. This is also undoubtedly a matter in which the European Commission is an interested party.

Jinzaburo Takagi,
executive director,
Citizens Nuclear Information Centre
Aileen Mioko Smith,
director,
Plutonium Action Network,
Kyoto,
Japan

From Mr Clive Bates.

Sir, Paradoxically, a letter from Japanese utilities (June 18) stating their support for Thorp may be the clearest sign yet that the plant will never operate. When Bronwen Maddox wrote of Thorp as a "Whitehall nightmare" ("Nuclear scheme that became a 16-year Whitehall nightmare", May 8) she noted that "fear of incurring penalties would make it hard for the government to raise the wider question of whether abandoning the plant, and releasing all parties from the contracts, could be in the mutual interest of the UK and Thorp's foreign customers". Civil servants had described the situation as a nuclear "prisoners' dilemma".

Foreign utilities and their governments also fear penalties and view the prisoners' dilemma from an opposite but symmetrical perspective to the UK. If they wish to find a way out of reprocessing, their most effective tactics are to force the UK government unilaterally to abandon Thorp, while they declare their unflinching support for the plant. In that way, they may hope to avoid liability and the punitive terms of their contracts with BNFL.

In fact, two recent events support this scenario. The first is that European countries agreed tough new conditions under the Paris Convention for radioactive discharges from Thorp that BNFL will find difficult to meet. Support for this was particularly forthcoming from Thorp's major European customers.

The second is the letter from the Federation of Electric Power Companies of Japan registering full commitment to Thorp and the plutonium fuel cycle. Such actions and declared support are consistent with Thorp's foreign customers seeking advantage in the end-game for the plant. The UK should act decisively, and devote its efforts to closing the plant on profitable terms rather than continue the futile struggle to keep it going.

Clive Bates,
Greenpeace,
Canonbury Villas,
London N1 2PN

Quality as key to survival of Europe's car industry

From Mr Gavin Clezy.

Sir, Heaven help the European car industry if Carole Tongue (Letter, June 15) holds any sway within it. Has she not understood that the renaissance of the British motor industry owes everything to the infusion it has received of Japanese methods and working practices and nothing to do with the relatively low wages and long working hours in Britain? Is the European parliament unaware that the survival of the motor industry is precariously dependent upon arbitrary quotas being agreed with the Japanese to keep their imports within reasonable bounds?

Long working hours have nothing to do with efficiency and competitiveness in a world market. It is the quality of work which counts and it is in this respect that Europeans, especially the British, have still to improve.

A number of high labour content industries in Italy continue to move their plants to the Ukraine, to Tunisia and even to Albania in order to escape the consequences of unrealistically high social contributions which Italian politicians espouse and Italian manufacturers are having increasing difficulty in living with.

Is it possible that the European parliament has not heard that BMW has been driven to open a plant in the US?

Gavin Clezy,
chief executive,
British Chamber of Commerce for Italy,
Via Agnello 8,
Milan 20121
Italy

Give more than you promise

From K E Ludvigsen.

Sir, The implications of the present downturn for Europe's carmakers may be even more profound than Kevin Done's excellent review ("Carmakers hit the panic button", June 17) suggests. The reunification boom in Germany masked a real decline in comparable car sales in Europe from the high in 1989 of 13.5m units. After 1990 Europe switched from a seller's to a buyer's market for cars – a sea change whose implications Europe's industry has only begun to address.

In a buyer's market, the customer has all the answers. All too used to taking the customer for granted, Europe's carmakers must now make the customer the focus of every operation from research and design through production to sales and after-sales. Thorough and open-minded appreciation of the customer's needs (not easy in an autocratic industry) discloses the right solution for every problem.

Of all the customer-pleasing actions that we have identified in our car industry research, one stands out: under-promise and over-deliver. Whether in a sales pitch, a warranty or a repair, giving more than you promise wins long-term friends. Those who adopt this positive philosophy soonest will find themselves the least affected by the next "sickening downward lurch" in Europe's increasingly cyclical car market.

K E Ludvigsen,
Euromotor Reports,
73 Collier Street,
London N1 7JU

The right way to learn maths

From Mr T P W Dowlen.

Sir, Maths teaching today is more than just adding up numbers. I think someone may have pushed Mr Ripley's prejudice button (Letters, June 17).

My wife, who is a maths teacher, observes that over the last 10 years the highest priority has been to teach children to understand how numbers work. She regrets that there are those, mostly in the private sector, who still hammer formulae into their pupils. In most cases learning by rote or learning "tricks" can still produce the results without understanding and after all, that's the way they were always taught!

T P W Dowlen,
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FINANCIAL TIMES
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Tuesday June 22 1993

EC plan from Mr Delors

BY HIS discussion of European Community competitiveness at the Copenhagen summit yesterday, Mr Jacques Delors, president of the European Commission, prodded EC leaders to take a few tentative steps on a long journey. Unfortunately, not all of the steps seem to be in the right direction.

The difficulties start at the beginning, with the excessive emphasis on EC "competitiveness". The idea of a life and death economic struggle with competitors abroad may help politicians overcome entrenched obstacles to needed reforms. But it is a dangerous misrepresentation of reality, since it reinforces the notion that EC's relations with its trading partners are a zero-sum game. The issue is not "competitiveness", but EC economic performance. The US did not create 29m jobs between 1970 and 1990, compared with only 9m in the EC, because it was more competitive than the EC. It did so because its labour markets worked better.

This is only the preamble. At the heart of Mr Delors' plan are eight points: movement towards the single EC currency; completion of the Uruguay round, along with fairness in world trade; investment in research and development; investment in transport and telecommunications networks; investment in the technological revolution; reform of education systems; improvements to the fiscal basis for economic development; and a different focus to labour market policy.

Some good ideas

The plan is excellent in parts, in its support for vouchers to allow lifelong training, for example, for active labour market policies and, above all, for completing the Uruguay round. But it is far from ideal. Mr Delors argues, for example, that member states must pull their economies back into line on the road to a single currency. But implementation of the convergence criteria in the Maastricht treaty will fail to provide immediate help to the EC economy.

Equally worrying are some proposals for EC involvement in the international trading system. Mr Delors shows courage in his willingness to confront France's growing doubts about liberal trade. But he also suggests that a prospective world trade body should take account of currency movements, of capital flows, of the need to share the costs of environmental protection and of support for social progress. Unless carefully handled, such ideas could become excuses for protectionism.

Also disturbing is the crudely quantitative approach to industrial policy. Spending on research and development should, says Mr Delors, be increased to 3 per cent of gross national product from the current 2 per cent; EC transport and telecommunications networks, costing Ecu30bn, must be established; and the EC should invest in the technological revolution, including a new and expensive information system. How can Mr Delors, or any official, know these are either the right plans or the right numbers?

Labour market

There are too many such ideas for wish-driven public spending and too little reliance on the market. The latter is truest of attitudes towards employment. There is no mystery why the EC's employment record is so poor. EC member states have robbed participants of incentives. For far too many people it makes little sense even to seek employment. Similarly, there is too little incentive to offer employment. The wedge between what it costs to employ a worker and what the newly employed worker receives is too great. Things will not improve if the character of labour market intervention does not change.

Here Mr Delors puts forward at least one excellent idea, which is to shift taxation away from labour and towards natural resources. But Mr Delors rejects substantial changes in labour protection laws and the design of EC welfare states. He is wrong. Both will have to alter. EC member states must find ways to support personal incomes that do not push so many people out of the labour market.

This agenda is, like the curate's egg, good only in parts. It is good to the extent that the issue of the EC's economic future is being seriously addressed. It is good too in some of the ideas being advanced. But Mr Delors has not yet advanced a convincing plan. His task is to do so, ideally by next December.

Slow steps to private coal

THE GOVERNMENT will soon be able to judge how successful its first steps to privatise the coal industry have been. British Coal has received about 100 expressions of interest from private sector companies considering a use for four of the 20 mines it no longer wants. Unfortunately, it is likely that few will make firm proposals to reopen them as mines when the deadline for detailed entries ends next month.

Since the government published its coal white paper in March, a response to the outcry which followed an earlier decision to close three-fifths of British Coal's capacity, market conditions have deteriorated. Tighter controls on emissions from power stations and an improvement in nuclear power efficiency have reinforced the electricity generators' determination to drive a hard bargain on coal purchases.

This has spread economic uncertainty across most of the British coal industry, while at the same time reducing the attractions to private operators of discarded British Coal facilities. The four pits which by last week had attracted 100 expressions of interest were Easington, Cotgrave, Silverhill and Bolsover. Another 16 are being advertised.

The paucity of ministerial action on coal since March suggests the government is indifferent as to whether the pits are taken on by the private sector or not. Ministers may think they cannot lose either way. If some pits are saved, they can argue that the privatisation process has begun. If no pits are taken on by private operators, they can say they were right all along; the market cannot sustain a large coal industry.

Urgent task

This inaction is justified with the explanation that nothing much can be done until privatisation legislation finds a place in the parliamentary timetable, probably in the next 12 months. But there are steps the government could, and should, take now.

The most urgent task is to give clearer signals about the form of the subsidies which the government has already agreed in principle to pay for output from British Coal's 12 reprieved mines and from pits taken over from the corporation by private operators. The private sector cannot be expected to commit itself to deal in uneconomically priced coal on the basis of a vaguely worded promise. There is, admittedly, the difficulty that in defining the subsidy beforehand the government will give too much away, either to the producers or generators. But compromise will have to be found if the privatisation process is to begin.

Competitive process

A second point concerns the procedures for licensing out British Coal's unwanted pits. In its white paper the government promised to set up an independent coal authority to perform this role, and said the necessary legislation would be included in the privatisation bill. In the meantime, however, this task is being carried out by British Coal itself, and questions are naturally being asked about the corporation's impartiality in deciding whether pits should be handed over to rivals in a fiercely competitive market.

So far British Coal has acted reasonably, but the competitive process has barely begun. The Department of Trade and Industry could instil greater confidence in the emerging coal market by appointing, on a temporary basis, an assessor who is not an employee of the corporation. The assessor could work at British Coal's offices and with its staff, but should be answerable directly to the DTI rather than to the corporation board.

A third step the government could take would be to push through, before the full privatisation bill, the small but important changes which are needed in the law governing coal operations. For example, private operators may at present have no more than 150 people underground at any one pit. This puts them at an absurd disadvantage. Also, the government already has parliament's approval to lift limits on underground working hours which, by being unduly restrictive, have for years hampered efficiency at British Coal. For the sake of both the private and public sectors in coal, the government needs to move swiftly to introduce these reforms.

The embattled public relations team at Lloyd's of London jokes that the insurance market has recently become the City's equivalent of the royal family, as staff reflect on the almost feverish media interest in the misfortunes of the Names.

Embattled and embittered

Lloyd's annual general meeting today threatens to fuel the anger of hard-hit Names, says **Richard Lapper**

The clamour looks set to intensify over the next few weeks after losses of up to £3bn for 1990 are reported today. The third successive year of record losses, to be announced by Mr David Rowland, the market's chairman, at today's annual general meeting at London's Royal Festival Hall, will force many hundreds more Names – the individuals whose personal wealth supports the market – into financial ruin.

The scale of the latest losses is startling:

- The 37,770 Names trading in the 1990 year at Lloyd's face losses of between £2.8bn and £3bn, a record in the market's 300-year history.
- Average losses per head will be more than £100,000. Cumulative losses at the market between 1988 and 1990 will amount to more than £5bn. Under its three-year accounting rules, Lloyd's expects to report a loss of £1bn for 1991, next June.
- Already 2,000 Names – of more than 33,000 trading in 1989 – have applied for help from the Lloyd's "hardship" committee, which reschedules the debts of Names and allows them to live in what it describes as "modest" circumstances. Normally, hardship cases can expect to retain an income of between £10,000 and £15,000 a year and can live in a house which, in London, would be valued at about £150,000.

Mr Christopher Stockwell, who chairs the independent Lloyd's Names Associations Working Party, says between 5,000 and 10,000 Names "could be completely ruined". He claims that 17,000 Names have joined the action groups which his association represents, and are either considering or taking legal action to recover their losses. He warns that Names are determined to continue their campaign for compensation, even at the expense of the market's future.

"We are not going to lie down and be walked on," says Mr Stockwell.

The problems and anger of the loss-making Names are the biggest challenge facing the market, whose fortunes in some other respects are brighter than for some time.

First, during 1992 and 1993, rates – or prices – for the motor, commercial insurance and reinsurance policies sold by Lloyd's have risen sharply, generating huge flows of cash into the so-called "premium trust funds" held by the market to meet claims. These so-called "hard" market conditions mean that most underwriters now believe they are trading profitably across the board.

Second, Lloyd's business plan, devised by Mr Rowland and Mr Peter Middleton, chief executive, and published two months ago, imposes radical reforms on agency businesses and syndicates trading in the market. These underline the shift to a more active management style. Mandatory cost-cutting measures should reduce overall expenses by 20 per cent from £885m in 1991 to £685m in 1995.

Third, moves are advanced to bring corporate investors to the market, whose commitments should help shore up the recent erosion of the capital base. Lloyd's expects to publish a rulebook, outlining the detailed terms on which so-called "incorporated Names" would be allowed to participate. It is hoped that at least £500m in corporate capital will be raised by next year.

Fourth, the strong cash flow into the premium funds should allow Lloyd's to soften the impact on Names of the 1990 losses, and thus allow as many as possible of the 19,700 Names active this year to continue underwriting next year. New rules will allow Names to borrow from the premium trust funds – which contain about £10bn – to pay part of their 1990 losses. In addition, many syndicate managers are calling for cash from their Names only when claims are paid, rather than when provisions against expected future claims are set.

Finally, Lloyd's emphasises that at least £600m of the 1990 loss has effectively been provided for by two different parts of the market, and therefore "counted twice". "Double" provisioning arises because some Names contend that the negligence of Lloyd's agents is responsible for their insurance losses, and that these should be paid for by other Names on rival syndicates which insure agents against legal liabilities. Until the dispute is resolved, both sets of Names have to set up provisions against the £600m portion of the overall loss.

Despite such positive trends, there are signs that the precarious finances of some loss-making Names, and the publicity which surrounds them, have undermined the confidence of both policyholders and investors. This is especially so in the US, which generates up to 40 per cent of Lloyd's business and from which the market is hoping to attract new corporate investors. Brokers, who place business in Lloyd's on behalf of commercial insurance buyers, say some of their American customers are beginning to ask detailed questions about the underlying security of Lloyd's policies.

"We are spending an awful lot of time getting the facts straight," says Mr Andrew Pinsent, chairman of the Lloyd's Insurance Brokers Committee. "We are constantly reassuring people that Lloyd's pays valid claims."

There are also concerns in the US that potential investors might be put off by the rising controversy surrounding Lloyd's and the actions of some Names. Earlier this month, Lloyd's moved to tighten its rules for calling extraordinary general meetings (EGMs), after it emerged that some hard-hit Names were aiming to organise a series of protests at such gatherings.

After Mr Richard Astor, a lawyer whose family has suffered heavy Lloyd's losses, announced an initiative to call an EGM to vote on a motion to liquidate Lloyd's, the market's ruling council moved swiftly to tighten the rules governing EGMs. Mr Rowland explained that Lloyd's efforts to attract fresh capital would be adversely affected by reports that Names were discussing motions to liquidate the society. "I must do everything I can to maintain confidence," he insisted, after increasing the number of Names' signatures required for EGMs from 100 to 1,500.

However, the rule change came too late to stop another EGM, called by supporters of another disgruntled Name, Mr Claud Gurney, to be held on July 5. It will consider a motion to charge future investors a premium for their participation, to help bail out badly hit Names. Nor will the reform deter Mr Stockwell, who claims that his association could mobilise the 1,500 signatures necessary for an EGM "overnight".

"We don't believe Lloyd's can have a profitable future if it decides to abandon the burnt Names," says Mr Gurney. "The goodwill represented by the Lloyd's brand name should be disposed of for the highest possible price."

Activists are also threatening to intensify their publicity and legal campaign against the Lloyd's establishment. There are several possible legal actions pending against at least two of the market's former chairmen on the grounds of "deliberate non-disclosure and misrepresentation at a regulatory level".

"They [the chairmen] owed fiduciary duties which they breached," says Mr Astor. Mr Philip Dinkel, a supporter of Mr Gurney, says that defeat of the July 5 EGM motion will lead "to the next layer of litigation. It is the inevitable outcome."

These developments are underscoring the importance of current efforts to achieve a negotiated settlement to compensate loss-making Names. In the autumn Lloyd's hopes to make loss-makers an out-of-court offer, financed mainly from errors and omissions insurance funds (which cover agents against negligence claims).

The indications are, however, that with limited errors and omissions funds, the proposed settlement is unlikely to be generous enough to satisfy the demands of the hardest-hit Names, many of whom could be bankrupted three or four times over by their losses.

So far Lloyd's has ruled out proposals to supplement these funds by raising cash externally in the money markets, on the grounds that the cost of such an exercise would depress profitability and dissuade new corporate investors from committing fresh capital. Mr Rowland and Mr Middleton would prefer to defuse the crisis without having to resort to raising debt. But Mr Stockwell predicts that Lloyd's may be forced to reconsider. He says: "Lloyd's goes into the future with a mortgage or it has no future at all."

Science policy for the central planner

PERSONAL VIEW

Mr William Waldegrave, Britain's minister for science, does not seem to understand why a market economy is efficient. The centrepiece of his white paper on science, engineering and technology is the adoption of the methods of the central planner to guide the government's expenditure on research in the academic world.

Called "technology foresight", the favoured technique entails setting up panels of experts for each technology sector in the economy. These panels will collect opinions on scientific opportunities and potential market applications from experts in each sector, and then seek to identify the technologies which will be most important to the economy. The criterion of importance will be the match between the strength of the research groups and that of companies able to exploit their research.

The government aims to establish a single consensus view of the academic research that the government should finance to help industry; it will also increase the quantity of this commercially relevant research. But a market economy is more efficient than a centrally planned economy because there are many sources of decisions, not just one. No fallible human can be right most of the time about such uncertain issues as research that will produce useful results. The more people take such decisions independently, the greater chance there is that someone will be right. If individual companies undertake "technology foresight" to guide their research programmes, they should promote economic growth. But if governments do it, and impose their views on the economy, they will hinder organic growth.

Prosperity may also be reduced by emphasising commercial relevance when selecting academic research for support. Such relevance is appropriate to technology, where academics would naturally have close relations with industry; but it is less likely to be appropriate in the sciences. If most academic research is expected to produce applicable results, less curiosity-orientated research will be done. Curiosity-orientated research – pure research – has led to important new industries, such as biotechnology, and often to useful by-products. Emphasising utility in academic research may reduce the chance of breakthroughs which provide significant industrial benefits.

Science policy has long been the last refuge of the enthusiastic planner. The founding father of science policy, J D Bernal, was a Marxist.

Prosperity may be reduced if inappropriate commercial relevance is emphasised

Many of the people attracted to the subject do not believe in the market, and businessmen and scientists often fail to recognise the conceptual difference between a company and a state.

It is surprising that a government which espouses the advantages of the market economy should share such conceptual confusions, and that it should rely on a largely untried technique for planning future expenditure on science. Although the white paper says that "technology foresight" has delivered considerable benefits in other countries, the supporting study shows that these benefits have been in developing policies and promoting discussion – not in improving the productivity of research. The technique is still at an experimental stage, and has been used on a large scale only in Japan and the Netherlands. The government will therefore be lucky if it gets results by its target date of the autumn of 1994.

The idea that forecasts of UK economic developments and industrial strengths can be used in deciding which scientific proposals would be worth developing displays optimism about the forecasts' value and, implicitly, pessimism about industry's ability to adjust to new technologies. It also betrays ignorance of the growing internationalisation of industry, and a simplistic belief in mercantilism. Prosperity will be enhanced if research and production are done where they can be done with the most efficiency.

A science policy appropriate to a market economy might encourage industrialists and academics to consult one another, but would leave them to decide whether they collaborated and what research they should do. Industrialists know best what research would be relevant to industry and are most likely to exploit the results if they have paid for them. The government would only finance pure research for which no application was foreseen; and provide financial incentives to encourage industry to give money to universities to fund such research. Academic research is more likely to benefit the nation if researchers are free to chose what they do; so government should promote academic independence.

In determining its policy for science, the government would do well to follow the advice that the German government recently received. That is, the main question in choosing the areas of science to support should be: where are the best scientists working?

David Sawers

The author is an economic consultant

OBSERVER

Seeking a new voice

■ Now that David Cameron, the last of Norman Lamont's advisers at the Treasury, is heading off to join Michael Howard at the Home Office, the way is clear for the new Chancellor of the Exchequer to beef up his team of outside advisers at Her Majesty's Treasury.

Not that Kenneth Clarke has left himself much room since he has brought Tessa Keswick and David Ruffley with him from the Home Office. However, Clarke has said that he wants to be remembered as the chancellor "who helped British industry and British commerce", and the search is on to find a special adviser who knows the facts of industrial life.

Given the dearth of takeover activity, there are any number of merchant bankers who would dearly love to take time off to bend the Chancellor's ear on the subject and build up their contact books at the same time. The job doesn't pay much but it would look good on the CV.

However, the Chancellor would be much better advised to cast his net wider and bring in someone who has first hand experience of what a rise in interest rates or sterling means to the bottom line. Hiring a souped-up stockbroker, or a City banker, would send the wrong sort of signal.

A couple of big names spring to mind, if the Chancellor wants a wise old bird. Sir Owen Green, the ex-chairman of BTR, has plenty of time on his hands these days, and it would make life a lot easier for the next generation of management at Hanson, if Lord Hanson took on a few outside interests and spent less time in the office.

Step by step

■ London Underground could do worse than copy the positive thinking displayed in a Hong Kong shopping centre: "This escalator is temporarily a stairway".

Flying tip

■ Latest addition to the business glossary comes courtesy of Professor Tom Cannon, ex-director of Manchester Business School. Addressing a conference of lawyers last week, he defined a business academic as someone who has learnt to turn bullshit into airline tickets.

Grave job

■ Searching for business beyond the grave seems a rather desperate measure even for Britain's job-hungry accountancy firms. But that is the effect of a dusty clause in the occupational pension schemes (auditors) act which has just landed on top of Observer's desk.

Whenever the last remaining or only appointed auditor meets one of three criteria before completing the annual audit, "the appointing body shall ... reappoint him with his consent ... as soon as reasonably practicable", the law reads. Those three criteria are removal, resignation, or death.

Government officials apparently refused to amend the law even when the need for ouija boards was pointed out. Presumably they do not mind a long wait.

'I cut out the middleman and stole some money myself'

Know your game

■ Liz Forgan, the new managing director of BBC Radio, seems to be finding her feet at the Beeb. Having announced that Johnny Beerling, the BBC's longest-serving programme controller, was leaving in the autumn, she shot off to watch the Lords Test match.

The former director of programmes at Channel 4 admits to not liking cricket but says that everything seems to revolve around the game at the BBC. And anyway she had been offered "Dukie's box" - normally reserved for the Corporation's chairman Marmaduke Hussey.

Indignant

■ As if today's news from Lloyd's of London is not bad enough, an advertisement in a US insurance trade newsletter is touting for membership of Great Britain's "fastest growing society" from overseas names "to whom fortune has been unkind"

Headed "insolvency should never prevent a man from living well", the advert promises "complimentary year-round lodging and board. Full grouse hunting and salmon fishing privileges." All hopefuls should apply to the Royal Society for Indigent Names at Lloyd's of London, c/o Cavendish Manor, Ham Upon Rye, Gloucestershire.

Now you see it

■ Today's sale at Sotheby's of an important work by Claude Monet reminds Observer of a mystery that gave the Impressionist painter's name new meaning to a young British fine art connoisseur.

His wealthy collector father had given him several canvases, including one small Monet he thought insignificant until he moved from his Thames-side home at Henley to a house by the river Tees near Stockton.

There he saw that while the other pictures looked the same in all weathers, when it was misty the Monet glowed with an incandescence it had never had in Thames-side mists. On dry days, however, the glow vanished. So he telephoned his father, saying Monet must have had some special quality that made his paintings react to something in the water of the Tees.

Despite voicing doubts, the father agreed to bring his two other works by the artist for a trial. And although there was no mist and no glow on the day he came, they decided there'd be enough moisture around at sunrise to put the theory about the river's glow-triggering effect to the test.

At dawn they took the paintings out in a dinghy, the father holding each of them over the water then closely examining it while the son rowed.

"What's the verdict?", he asked anxiously when the last had been inspected and laid down with a shake of the head.

"It's as I always told you," the old man replied. "Monet doesn't glow on Tees."

FINANCIAL TIMES
Tuesday June 22 1993

Voters bewildered by policies of LDP breakaway groups

Japan MPs launch reform party

By Robert Thomson in Tokyo

JAPANESE voters, having endured 38 years of one-party rule, are suddenly bewildered by breakaway parties, reform groups which may become parties, and old parties with new policies, all of them claiming to be the flag-bearer of reform.

The "Shinto Sakigake" was formed yesterday by 10 MPs from the ruling Liberal Democratic party who say they are still fond of the LDP, but would prefer to establish a new party to leave behind the "staleness" of the past.

Shinto means new party, but *sakigake* can mean harbinger or forerunner or initiative or pioneer. Japanese journalists translating the name into English have decided to call the party the New Party Harbinger (NPH).

The NPH is led by a former provincial mayor, Mr Masayoshi Takemura, who defected from the LDP on Friday night, but has suggested that he is prepared to work with the LDP in a coalition after the July 18 election.

More confusing is that Mr Takemura says he will work with the Japan New party, established by another former provincial governor, Mr Morihiro Hosokawa, although that party adamantly opposes the LDP.

But the NPH is not prepared to work with a pro-reform party to be formally launched tomorrow by Mr Tsutomu Hata, former finance minister. The NPH apparently thinks Mr Hata's group too closely resembles the LDP.

The difficulty in telling these parties apart is that each is running on a pro-reform platform and has yet to explain such issues as housing policy, measures to stimulate a flagging economy or how the health system should be improved.

Mr Hata, whose rebel faction brought down the government in a no-confidence motion on Friday, is talking of a coalition with the Social Democratic party, formerly known as the Japan Socialist party, which is still strongly flavoured by Marxist-Leninist ideology.

The SDP still supports the totalitarian North Korean regime of Kim Il Sung in preference to the South Korean government, and has changed its name only in English – after much bickering, it remains known as the *shakaito* or socialist party in Japanese.

SDP officials say Mr Hata would make a suitable prime minister, yet he is closer to South Korea, supports trade liberalisation and wants a balanced relationship with the US. The SDP remains suspicious of the US.

Mr Kiichi Miyazawa, prime minister, opened the LDP's campaign headquarters yesterday with a speech suggesting he, too, is pro-reform, though he lost the no confidence motion because he agreed to block reform proposals.

Mr Toshiki Kaifu, a former prime minister, said he would form a political reform league within the LDP. Mr Kaifu appears to have no intention of leaving the party, and is being pushed to the fore because, unlike many colleagues, he is untainted by scandal.

Stampede to reform, Page 4

THE LEX COLUMN

Roussel's new master

Rhône-Poulenc's plan to offer its 35 per cent stake in Roussel-Uclaf to the market appears to contain something for everyone. The vendor sheds an unwanted minority inherited from the French government and can use the proceeds to reduce debt ahead of its own privatisation. Hoechst, which holds a majority in Roussel, is liberated from the uncomfortable position of having a fierce competitor as a sleeping partner. If the share sale improves liquidity by increasing Roussel's free float, investors also stand to gain – supposing, of course, that shares are offered at an attractive price.

FT-SE Index: 2903.4 (+24.0)

Source: FT Graphite.

If Rhône-Poulenc hopes to raise FFr4.5bn from the sale, an offer price close to Roussel's current share price is likely. Since the shares have risen by 30 per cent this year, the timing looks a shade opportunistic. Although Roussel is not extravagantly valued against the French market, a price-earnings ratio of 17 times this year's forecast earnings is not cheap by international standards. Valuation is not made easier by Hoechst's decision to sell its French drugs business to Roussel in exchange for shares.

While the French drugs market is growing, this exchange of assets works in Roussel's favour. The promise of cost savings from closer co-operation with the German giant is equally tempting.

The arrangement underlines, though, that Hoechst will hold the whip hand from here on. Without Rhône-Poulenc contributing to a balance of power, investors will have to take Hoechst on trust. Even allowing that its intentions are honourable, that fact alone demands something of a discount.

British Steel

The market seems determined to bet on recovery at British Steel. While its losses have virtually tripled over the past year, its share price has risen by more than 60 per cent. Devaluation has improved the outlook. So have the price rises in the UK, which are sticking, and those in Europe, which will only stick if agreement can be reached on cutting capacity. Were that to happen British Steel could be assured of a striking recovery. Without it the prospect is for more expensive job losses and fresh disappointment on earnings.

Even so, British Steel looks strong in comparison to its competitors. Despite both falling demand and weak prices it managed to contain the increase in its net debt to £71m last year. The £213m reduction in working capital – which is additional to the effect of de-consolidating the stainless steel activities – will not be repeated. But, unlike most of its European competition, British Steel can afford to cut its capital spending further. Its cash-flow should benefit from higher prices and there may even be a small boost from the sale of Ravenscraig equipment.

Despite extensive rationalisation, British Steel thus boasts a stronger balance sheet than many European companies which have yet to begin serious restructuring. That should help if Europe dawdles over capacity cuts, but the uncertainty does not leave the shares looking cheap. British Steel would have to earn nearly 7p this year to put the shares on the market's forward multiple of 14.5. It will be lucky to earn half that, even with an orderly resolution of the European problem.

British Gas

The Monopolies and Mergers Commission seems unlikely to produce its report on British Gas until the end of July. That is conveniently after both the BT3 flotation and the departure of MPs for sunnier climes. By then British Gas's management will have spent a full year pleading its case, though it seems unlikely to gain much from the whole exercise.

Of the three principal issues in the inquiry: industry structure, the domestic monopoly and financial returns for British Gas, the company is at its weakest in trying to maintain its exclusive grip on the domestic market. Other utilities like BT have been forced to accept competitors cherry-picking their more profitable customers, so British Gas may not get much sympathy. Indeed, the company would have appeared more forward-looking had it embraced competition. By contrast, Ofgas has not made a convincing case for British Gas to be split up. However, that will be cold comfort given that the company had hardly expected to be dismembered.

Yet the make or break issue for British Gas will be the rate of return it is allowed to earn on its assets. Plenty of academic fur has flown debating the issue, but figures around 4-5 per cent for existing assets and 7-8 per cent for new investment look sensible. The RPI-5 cap also seems likely to remain. That leaves British Gas close to the status quo, though heavy cost reductions will be needed. After a year failing to get the regulatory monkey off its back, Gas's management must be wondering if it was all worthwhile.

Thorn EMI

Thorn EMI's lighting business has been on the auction block so long that it comes as something of a relief that the hammer has finally fallen. Whether it is worth another 3 per cent on the share price, though, is a moot point. The £162m consideration is fair for a capital intensive business with a big exposure to flickering European markets, but it is nothing to get excited about. Thorn should receive some additional gain from retaining a 12 per cent stake. Nevertheless, the deal will marginally dilute earnings this year.

The market, though, prefers to focus on the "clean" rentals and music business that is emerging from Thorn's once-sprawling empire. Rental and music will have increased their share of Thorn's operating profits from some 57 per cent four years ago to perhaps 95 per cent this year. The process will effectively be complete once the security and electronics businesses are sold – although this may take some time given their complexity.

Certainly, it is hard to argue there was ever much industrial logic in bundling together light bulbs, sonar systems and CDs. But applying separate ratings to Thorn's music and rental arms gives a total market worth little different from where its stands today. It is not yet clear that Thorn's long march towards demerger will greatly enhance shareholder value.

Money supply figures boost hopes of German rate cuts

By Christopher Parkes in Frankfurt

THE RATE of growth in German money supply slowed in May, encouraging hopes that the Bundesbank may shortly resume its cautious programme of interest rate reductions.

However, expansion in the broad M3 measure, reconfirmed yesterday as the main factor governing the central bank's monetary policy, still exceeded the central bank's target range.

Credit growth accelerated again and there was a strong increase in public sector borrowing from banks. These factors helped drive annualised, seasonally adjusted M3 expansion to a provisional rate of 6.7 per cent, down from 7 per cent in April, but above the central bank's target band of 4.5 per cent to 6.5 per cent.

Frankfurt economists expect M3 will soon fall back within the Bundesbank's parameters, and thus allow continued gentle easing of monetary policy. In the light of yesterday's news on money supply and further cuts in other European interest rates, a further ½-point fall in Germany's 7.25 per cent discount rate is widely expected at the central bank's next meeting on July 1.

The scope for fulfilling international requests for more radical action remains constrained, however, by Germany's mounting public sector deficits and the weakness of the D-Mark.

Public borrowing, including loans to the Treuhand privatisation agency and other state enterprises, is one of the main forces behind recent growth in M3, and has been heavily criticised by senior Bundesbank officials. According to new industrial surveys, private sector capital investment is rapidly drying up as recession takes its toll.

Questioned yesterday on developments affecting the stability of the D-Mark, Mr Johann Wilhelm Gaddum, recently nominated as the next vice-president of the Bundesbank, insisted that foreign exchange rates did not guide bank policy. M3 remained the key indicator.

Confidence in the D-Mark, which has lost more than 3 per cent of its trade-weighted value since February, would not be helped if the bank departed from its traditional policies, he said.

The German currency's decline is being increasingly attributed to the domestic recession, despite the central bank's efforts to bolster confidence with less doom-laden forecasts than independent observers.

Although business confidence is still low, there have been some signs that the economic slump may be approaching its low point. New orders for manufacturing, for example, are falling less rapidly than in the past 18 months, thanks to improved foreign demand.

Seven die as two car bombs explode in Madrid

By Tom Burns in Madrid

TWO CAR bombs which killed seven people and injured 25 in central Madrid yesterday bore the hallmarks of the Basque separatist Eta guerrillas, a group widely believed to have been cornered and disarmed.

Eta suffered a setback in general elections this month when its political front organisation, Herri Batasuna, lost two of the four seats it had held in parliament.

The group could have been seeking to put pressure on the Basque Nationalist party, PNV – the main political group in the northern Basque region, which is this week considering an invitation by Mr Felipe González, prime minister, to join a coalition government.

The bombs exploded during the morning rush hour four blocks and 45 minutes apart. The first killed five senior military officers, a sergeant and a civilian driver who were travelling in an unmarked minibus to general staff headquarters.

The second blast severely injured several pedestrians close to the US embassy and the residence of the French ambassador.

The explosions were the first in Madrid in a year, and came at a time when Eta activity had been low. Several gunmen have been seized in past months and the organisation's supreme commander, arrested in south-west France last year, was jailed for 10 years by a Paris court last Friday.

The attacks could possibly have been a reprisal against his jail sentence.

Japan most competitive

Continued from Page 1

and human resources. About a third of the indicators are derived from a survey of more than 2,000 executives.

With all countries affected by world recession, the report stresses the importance in the longer term of economic resilience, as reflected in education, motivation and attitudes. It singles out Singapore and Denmark as being strong in these areas.

It also notes a growing concern among executives that improved competitiveness may be resulting in less rather than more employment as enterprises in industrialised countries seek to cut costs by job-shedding or relocating production in low-wage countries.

French cut interest rates below German levels

Continued from Page 1

six weeks. The Bank of France's move pushed its official interest rates below Germany's for the first time since May 1967, when Germany's discount rate stood at 4.5 per cent and its French equivalent was at 3.5 per cent.

Some dealers in financial markets expect the Bundesbank to cut its official rates soon. The annualised figure for M3 money supply growth for May, published yesterday, was 6.7 per cent, narrowly outside the Bundesbank's target range of 4.5 per cent to 6.5 per cent.

Yesterday's European rate cuts did not help to strengthen the D-Mark on the currency markets.

The dollar consolidated last Friday's rally against the D-Mark and closed at DM1.6890, up nearly a pfennig on the day. The French franc shrugged off the rate cut and gained marginally against the D-Mark, closing at FFr3.360.

The differential between ten-year government bond yields in Germany and France narrowed to 0.10 percentage points as dealers took the view that inflation prospects in France were rosier than those in Germany.

"That narrowing in yields is the strongest possible statement of the market's confidence in French fundamentals," said Mr Brian Hilliard of French-owned UK securities house Société Générale Strauss Turnbull.

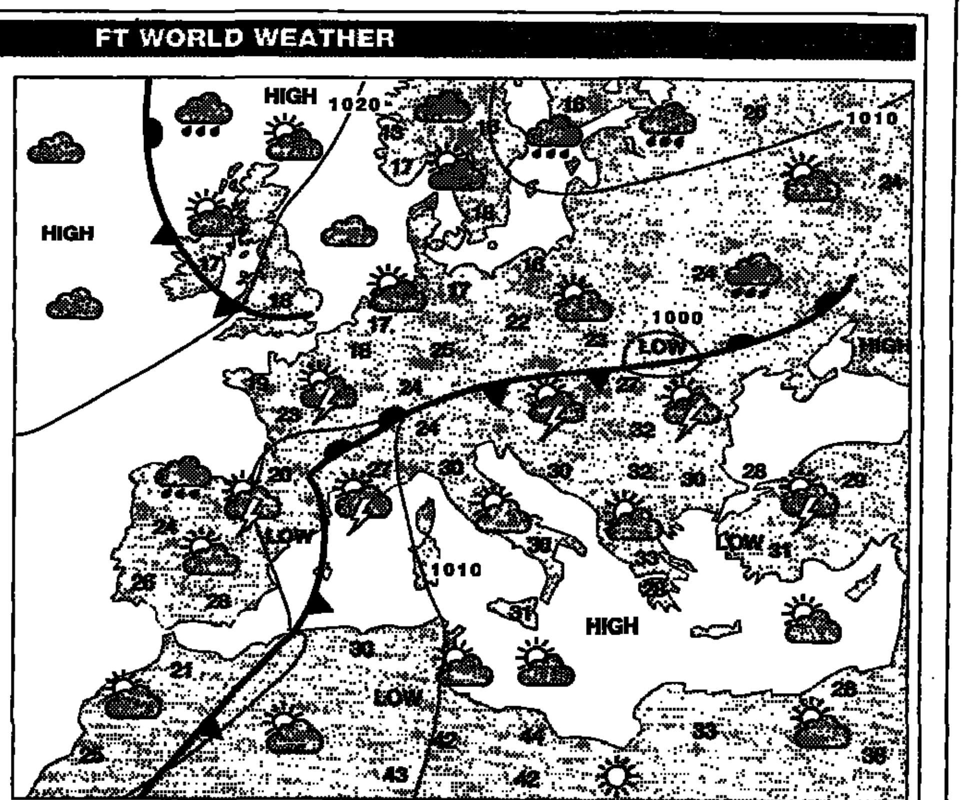
FT WORLD WEATHER

Europe today

Low pressure over northeastern Spain and southern France will lead to many thunder storms over southern France, the Central Massif, and the Alps later on. The main front between warm and somewhat cooler air is strechting from the Alps to the Ukraine. Some local thunder storms will develop especially over the northern Balkan countries. North of this front, sunny spells and cloud alternate over the Low Countries, Denmark, and southern Scandinavia. However, Finland and adjacent parts of Russia have some showers. Over the Britain it will be fairly cloudy, with clear patches over Ireland and parts of Wales.

Five-day forecast

In the next 2-4 days, the main low pressure system is bound to move over the Alps towards mid-Russia, where it will arrive at the end of the week. Severe thunder showers will occur on Wednesday over the Alps, Czechoslovakia, and Poland. Cool air will continue to move into British Isles, the Low Countries and Scandinavia. South-east Europe will stay warmest at 30-35 C.



Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius	
Abu Dhabi	sun	39
Accra	thund	30
Algiers	sun	30
Amsterdam	fair	16
Athens	fair	31
Bangkok	cloudy	32
Barcelona	shower	25
Beijing	fair	32
Belfast	fair	17
Belgrade	fair	31
Berlin	fair	20
Bermuda	sun	27
Birmingham	fair	17
Bogota	fair	20
Bombay	cloudy	30
Bordeaux	rain	25
Brussels	cloudy	18
Budapest	thund	27
Buenos Aires	fair	15
Cairo	sun	36
Cape Town	fair	18
Caracas	fair	29
Chicago	fair	30
Cologne	fair	21
Copenhagen	fair	18
D' Salaam	thund	30
Dakar	sun	30
Dallas	fair	29
Darwin	fair	32
Delhi	fair	43
Dubai	fair	41
Dublin	fair	17
Dubrovnik	fair	30
Edinburgh	cloudy	18
Faro	sun	23
Frankfurt	fair	24
Geneva	thund	24
Glasgow	cloudy	19
Hamburg	fair	16
Helsinki	rain	17
Hong Kong	shower	30
Honolulu	fair	30
Isle of Man	fair	17
Istanbul	fair	28
Jersey	fair	18
Karachi	fair	35
Kuwait	sun	44
La Paz	fair	16
Las Palmas	sun	25
Lisbon	cloudy	23
London	cloudy	18
Los Angeles	sun	21
Luxembourg	cloudy	22
Lyon	thund	25
Madeira	sun	24
Madrid	fair	26
Majorca	fair	29
Malta	sun	31
Manchester	fair	17
Manila	thund	34
Melbourne	cloudy	13
Mexico City	fair	18
Miami	fair	32
Milan	thund	28
Montreal	fair	24
Moscow	fair	19
Munich	shower	23
Nairobi	thund	27
Naples	sun	31
Nassau	sun	30
New York	cloudy	30
Nice	cloudy	26
Nicosia	sun	31
Oslo	sun	20
Paris	fair	22
Perth	shower	17
Prague	fair	23
R' de Janeiro	sun	24
Rangoon	shower	30
Rekjavik	fair	13
Riyadh	sun	40
Rome	fair	29
S' Francisco	fair	20
Seoul	thund	27
Singapore	thund	31
Stockholm	shower	16
Strasbourg	thund	25
Sydney	cloudy	17
Tel Aviv	sun	32
Tokyo	cloudy	25
Toronto	sun	24
Tunis	sun	35
Vancouver	fair	18
Venice	fair	25
Vienna	shower	25
Warsaw	fair	23
Washington	fair	32
Wellington	shower	11
Winnipeg	shower	31
Zurich	thund	24

Portuguese airline 'needs Es80bn to ensure survival'

By Peter Wise in Lisbon

TAP-AIR PORTUGAL, the state airline, needs a government capital injection of Es80bn-Es100bn ($501m-$626m) by the end of the year if it is to survive, Mr Fernando Santos Martins, the company's president, said yesterday.

TAP has an accumulated debt of some Es70bn, with operating losses of Es27.3bn in 1992 and a similar deficit forecast for 1993.

The state plans to sell off up to 49 per cent of the airline later this year. A government spokesman said the state was willing to inject Es100bn, provided that a restructuring plan was implemented before the end of the year and that a pact was signed between management and unions to ensure labour peace.

TAP has been disrupted by recent strike action, and the unions yesterday threatened a series of 24-hour stoppages in July. Workers are fighting for wage increases and against plans to cut the workforce from 10,500 to 9,000 by the end of 1993.

None of TAP's routes is profitable, and it costs the company more than Es15bn annually to lease its 38 aircraft.

The company faced angry demonstrations from workers when it was unable to pay all of April's wages on time and was forced to take out a syndicated bank loan of Es30bn to pay them. There have also been difficulties in meeting payments for aircraft leasing, fuel and catering services.

The airline, with annual operating costs of Es150bn, cancelled an order for four Airbus A340 aircraft as it was unable to meet the indemnity payments involved.

In April, Air Atlantis, a charter company in which TAP was the main shareholder, was closed down by TAP because of insupportable losses amounting to Es2.1bn. Two hundred workers lost their jobs and TAP was left with a monthly bill of Es300m for leasing the defunct company's four Boeing 737-300s.

German unit for building society

By David Waller in Frankfurt and John Gapper in London

BRADFORD & BINGLEY, the seventh-largest British building society, is seeking to become the first non-German institution to establish a German building society.

The society said yesterday that it planned to set up a Bausparkasse – the German equivalent – in Hamburg. It would be the first UK society to operate in Germany, although others have operations in France and Spain.

This is a significant development for the German home loans market, which has hitherto been served almost exclusively by domestic institutions, with the exception of loans made through the branches of foreign-owned banks.

It is also the latest step towards continental European growth by societies. Halifax, the largest society, disclosed earlier this year that it had applied for a licence to take retail deposits for mortgage lending in Spain.

The German housing finance market is seen as attractive as there is an acute shortage of housing in western and eastern Germany. Homeowners are fewer as a percentage of the population than in other industrialised countries.

Other UK societies are thought to have investigated the possibility of establishing operations in Germany but have been put off by the regulatory requirements.

Mr John Smith, Bradford & Bingley's finance director, said the plan was to set up a Bausparkasse with capital of DM10m (£4m), the legal minimum. The aim was to take deposits as well as make loans within the German market.

Marketing for the subsidiary would be handled by a new company to be founded with German partners. This would sell life insurance policies, as well as loans to finance house building.

Mr Smith declined to give full details of the plans pending approval for the venture from the Bundesamt für das Kreditwesen, Germany's federal banking authority.

Offer for Vard reduced to NKr1.1bn

By Karen Fossli in Oslo

VARD, the Norwegian cruise and ferry group, said yesterday that an offer for its ferry business had been lowered by NKr100m to NKr1.1bn ($155.2m) and that it was seeking to retain a 20 per cent stake in the unit.

The reduction of the offer – made three months ago by Union Bank of Switzerland, on behalf of Mr Trygve Hegnar, a Vard board member, and a group of investors – reflected an adjustment for the level of assets, an assessment of the outlook for 1993 and other factors, Vard said.

In Vard's 1992 accounts, the three ferries which make up the fleet of the Scandi and Larvik lines were booked, partly for tax purposes, at a value of NKr455m – a symbolic figure which does not reflect the value of the business as a going concern.

Vard is also less optimistic about development of the ferry business. Last year, the addition of a new ferry increased capacity between Norway and Denmark, but volume this year has been below expectations.

The group is uncertain about when the disposal can be concluded. It is aiming for mid-August, although the sale would be retroactive from June 1. In addition to approval from the Norwegian authorities, any deal would have to be approved by Vard's creditors.

Magistrates' move on Ferruzzi criticised

By Haig Simonian in Milan

THE DECISION by Milan magistrates to open a file on the Ferruzzi débâcle yesterday depressed share prices and provoked a hostile reaction from the Consob companies and stock market watchdog.

The magistrates' step means that any future action by the committee of five creditor banks working on a rescue plan for the troubled group will be monitored by a special section of the Milan tribunal. It will concentrate on Ferruzzi's books to check for possible irregularities or infringements of company law.

"The judicial initiatives do not help a solution," said Mr Enzo Berlanda, Consob's chairman. He also warned of the potential damage to Ferruzzi's image abroad.

However, the magistrates' decision was welcomed by Italy's small savers' association. Its chairman, Mr Adamo Gentile, has written to Milan's chief public attorney, Mr Francesco Saverio Borrelli, expressing "extreme satisfaction".

Many Milan dealers appeared to find Mr Borrelli's claim that the initiative was purely a reaction to recent events barely convincing. "At the very least, the magistrates are sending a clear signal to Mediobanca that this time, things can't be done in the old way," said one.

However, enthusiasm for the magistrates' action was not universally shared, with some brokers criticising the move, ostensibly to protect small shareholders, as unnecessary meddling.

"They've already brought down the politicians, now they're looking elsewhere," claimed one critic.

Investors reacted with a new wave of sales of Ferruzzi group shares, reversing the partial recoveries of the second half of last week.

Shares in the Ferruzzi Finanziaria (Ferfin) holding company dropped 2.65 per cent to L636.2, while shares in Montedison, the main operating subsidiary, dropped 4.79 per cent to L894.

Deal that leaves all sides satisfied

Paul Abrahams assesses Rhône-Poulenc's sale of its stake in Roussel

THE SALE of Rhône-Poulenc's 35 per stake in Roussel Uclaf, the French bioscience group, appears to make good sense for all the companies concerned – Rhône-Poulenc, Hoechst, the German company that owns 54.5 per cent of the bioscience group, and Roussel itself. Whether the Roussel shares are good value for investors at their present price is another matter.

For Rhône-Poulenc, the deal is a relief. Mr Jean-René Fourtou, chairman, has never made it a secret that he did not want the minority stake that was foisted on his company by the French state in July 1990.

Mr Fourtou is selling the stake at the earliest possible moment under the terms of the protocols agreed between Rhône-Poulenc and Hoechst in July 1990. He is also taking advantage of Roussel Uclaf's all-time high share price, up 30 per cent since the beginning of the year on expectation of high sales of the group's controversial abortion pill RU-486.

Most importantly, the share sale could, at yesterday's share price of FFr575, raise FFr4.5bn ($797m) and help reduce Rhône-Poulenc's debt mountain.

The group's debt is too high, fluctuating at between FFr33bn and FFr35bn, admits Mr Jean-Pierre Tirouflet, finance director. He aims to cut debt by up to FFr7bn by the end of the year through the sale of some prefered stock in the US, the sale of assets other than Roussel, and through positive cash-flow.

The deal also allows Rhône-Poulenc to dispose of a minority holding which offered it little operational control and which generated only limited synergies.

Hoechst directors could scarcely hide their elation about the deal's structure, which clears a substantial minority shareholder from Roussel's board and frees the group from direct political intervention from the French government.

Although the company holds a majority stake, it felt constrained by political considerations. Rhône-Poulenc is 43.4 per cent owned by the French state. Erap, the government holding company, also controls 5.5 per cent.

Alternatives to the sale announced yesterday were considered, said Hoechst. However, the company said it had not been interested in a proposed deal with Rhône-Poulenc, swapping some of the German group's chemical interests for the 35 per cent stake.

An outright purchase would have taken Hoechst's gearing from about 41 per cent to 52 per cent, unacceptably high given chemical companies' present poor cash-flow, said analysts.

Hoechst directors said the sale could open the way for Roussel to tap the international equity markets at a later date.

Members of Hoechst's board stressed the potential synergies. Hoechst is the sixth-largest drugs group in the world with sales last year of about DM11bn ($6.55bn). That compares with Roussel's pharmaceuticals sales of FFr14.8bn. There is little overlap in the companies' drugs portfolios.

Hoechst estimates it will eventually be able to reduce costs at Roussel by DM250m a year. There remained considerable opportunity for rationalisation in both production and administration in the long-term, said the German company. There would also be some sharing of clinical trials, said Hoechst directors.

The future of Roussel's agrochemicals business remains in doubt. Hoechst said the operation, which has a turnover of about FFr3.5bn a year, was too small to survive on its own. A decision whether to merge the business with Hoechst's agrochemicals operations had not been made.

Whether the deal is good for prospective investors in Roussel remains unclear. Hoechst has tried to sweeten the pill by changing Roussel's structure.

The German company intends to sell Roussel its French business, Laboratoires Hoechst, which has a turnover of about FFr1.2bn. It is also selling the French group a 50 per cent stake in Albert Roussel Pharma, a marketing operation in Germany with a turnover last year of about FFr834m.

The businesses are being sold to Roussel for FFr1.2bn, according to BZW, the global co-ordinator for the internation private placement. The French company will issue about 2.2m shares at the same time as the share sale, taking the number of shares issued up to about 29m.

Mr Tirouflet said the sale of Hoechst's businesses was a guarantee of Roussel's integrity and autonomy, and made the French government view the deal as more acceptable.

Sales growth in the first quarter this year was only 4.2 per cent, uninspired even by recent pharmaceutical industry standards. The company is promising a 7 per cent increase in sales this year and a 15 per cent rise in net profits before exceptionals to FFr850m.

Roussel is heavily involved in antibiotics, a therapeutic area hit particularly heavily by price competition in the US. Admittedly, net profits last year increased by 72 per cent to FFr1.03bn, after a round of cost-cutting. But much depends on the future success of the abortion pill RU-486.

As Roussel's international road-show starts tomorrow, its executives will have some hard selling to do if they are to counter the market's current dislike of healthcare stocks.

Repola returns to black with FM27m in first term

By Christopher Brown-Humes in Stockholm

REPOLA, Finland's largest industrial group, returned to the black in the first four months due to a strong result from its forestry operations.

Profit after financial items amounted to FM27m ($4.8m), compared with a FM118m loss in the same 1992 period, even though the weaker markka pushed up financing costs by FM257m to FM853m.

Operating profit climbed to FM880m, or 10.2 per cent of net sales of FM8.63bn, from FM478m, or 5.6 per cent of FM8.46bn in sales in 1992.

Nearly all the growth came from the company's forestry unit, United Paper Mills, where operating profit climbed to FM804m from FM421m and sales increased to FM5.44bn from FM4.56bn.

Sales by the group's engineering business fell 22 per cent to FM2.67bn from FM3.42bn, although operating profits rose to FM57m from FM48m.

The group's third arm – plastic packagings – saw profits rise to FM6m from FM4m.

Preussag blames loss on European steel downturn

By Ariane Genillard in Bonn

PREUSSAG STAHL, the third-largest German steel group, returned a loss of DM96m for the six months to March 31, compared with a profit of DM30m in the corresponding period a year before.

Sales for the six months dropped by 26.6 per cent to DM1.1bn, down from DM1.5bn previously. Preussag Stahl's raw steel production was 1.8m tonnes, down from 2.1m in 1991-92. The company's annual raw steel production last year stood at 4.2m tonnes.

Preussag Stahl blamed the downturn in the European steel industry for the loss. "We have joined the ranks of the other steelmakers, which are all posting large losses," the company said.

Capital investments continued to rise, totalling DM144m for six months. A second blast furnace will start operating in 1994, with a raw steel capacity of 2.1m tonnes a year. The new blast furnace will replace four smaller and older ones, allowing significant savings. The restructuring will cost 1,500 jobs over the next three years.

INTERNATIONAL COMPANIES AND FINANCE

Apple faces up to decline in PC profit margins

By Louise Kehoe in San Francisco

MR Michael Spindler, newly-appointed chief executive of Apple Computer, faces the pressing problems of Apple's decline in personal computer profit margins. This may overshadow ambitious plans mapped out by his predecessor to expand into new business segments.

Apple is expected shortly to announce large job cuts following its announcement this month that second-half earnings would fall below year-ago levels. Apple officials declined to comment on reports of layoffs.

"We want to make Apple a larger part of the information industry," Mr Spindler said. This followed the announcement on Friday that Mr John Sculley, chairman and chief executive, would relinquish the chief executive role to Mr Spindler, formerly president and chief operating officer at Apple. Mr Sculley will remain chairman.

Mr Spindler cautioned, however, that Apple could not afford to ignore problems in its core PC business. Macintosh PCs would remain Apple's largest business for some time, he said.

Apple's new business thrusts include "enterprise computing" and a new range of pocket computers.

The company is also preparing for the transformation of its core Macintosh PC products to a new technology platform, based upon the Power PC microprocessor jointly developed with IBM.

Although Mr Sculley has been the chief strategist behind these plans, it will fall to Mr Spindler to execute them. "We have turned raw technologies into products, now we must turn products into businesses," Mr Spindler says.

Apple's entry into the "enterprise computing" field began earlier this year, with the launch of its first "servers" – high power computers for use in corporate networks. Competing in a broad range of manufacturers, Apple has stressed ease-of-use over performance to define its niche.

It is also about to introduce the long-awaited Newton personal digital assistant, pocket-sized computers that help individuals to organise daily activities and send messages. For the past year, Mr Sculley has eagerly promoted the concept of the new product upon which Apple has placed great emphasis for its growth.

He has positioned Newton technology as a breakthrough in the convergence of computer and telecommunications technology with publishing and entertainment, forecasting a multi-billion dollar market for such products.

Mr Spindler's challenge will be to turn Mr Sculley's visions into business reality. The situation is reminiscent of the circumstances that faced Mr Sculley when he joined Apple 10 years ago. Apple was then gearing up for the launch of Macintosh, a radically new type of PC championed by Mr Steve Jobs, Apple co-founder.

In his early days at Apple, Mr Sculley, formerly president of Pepsi-Cola, was seen as the hard-headed businessman who could bring a measure of discipline to Apple.

Over recent years, however, Mr Sculley has become known as a technology "visionary" while Mr Spindler has been given increasing responsibility for the day-to-day running of the company.

As chairman of Apple, Mr Sculley plans to continue looking for new business opportunities. The company, for example, is exploring the potential of interactive television.

Apple has been seeking out partnerships, but "those kind of alliances take an awful lot of time and they have to be negotiated at a very high level," Mr Sculley says. "It is too much for one person. I'm getting tired of getting up at three or four in the morning and working seven days a week.

"I proposed to the board that we separate the office of chairman from that of chief executive. The CEO should be the individual who runs the whole company," he said. "The chairman could be the person who makes the high level contacts and works on these emerging opportunities."

US court upholds cigarette decision

By Nikki Tait in New York

THE Supreme Court, the highest judicial authority in the US, has affirmed a lower court decision which threw out a $148.8m jury award against Brown & Williamson, the US-based cigarette manufacturer and a subsidiary of Britain's BAT Industries.

The decision came after almost a decade of legal wrangling.

The case against B&W was brought by Liggett Group, a rival US tobacco company and now called Brooke Group, and centred on anti-trust issues.

Brooke claimed that B&W has used "predatory" pricing to limit Brooke's ability to compete in the burgeoning market for low-priced "generic" cigarettes.

Brooke had introduced some ultra-cheap cigarettes, sold in plain black and white packaging, and was successfully wooing smokers from other brands.

B&W retaliated with its own generic brand, and offered wholesalers bigger volume-based rebates than its smaller competitor.

Brooke sued, and in 1990 a jury in North Carolina awarded Brooke just under $50m. Damages, in US anti-trust cases, are automatically tripled. However, a federal appeal court in Richmond, Virginia, sided with B&W, and the Supreme Court, by a six-to-three vote, has affirmed that ruling.

B&W said yesterday it was "very pleased" with the Supreme Court ruling, and was "delighted to finally have this lengthy case concluded". The suit was first filed by Liggett/Brooke in 1984.

Hewlett-Packard reaps the reward of Risc

The computer company's new chief executive finds no room for complacency, writes Alan Cane

HEWLETT-Packard, in common with other leading computer companies, is adjusting to a new chief executive. But, unlike IBM and Digital Equipment, Mr Lewis Platt, who replaced Mr John Young as head of the California-based company last July, took over a well-tuned machine in no immediate need of running repairs.

Revenues, profits and orders at Hewlett-Packard are buoyant, in marked contrast with many of its competitors who are struggling with weak sales and heavy overheads.

Mr Platt, aged 51 and with the company for 26 years, sees no cause for complacency: "A company has continually to re-invent itself. The difficult part is making changes while you are doing well. You have got to start before the downhill trends are obvious."

When Mr Young was appointed chief executive in 1978, revenues were $1.3bn, mostly derived from test and measurement equipment and hand-held calculators.

This year, sales are likely to top $16bn, placing it among the world's top three information technology suppliers. Its chief strength is now in computers and desk-top printers. It benefited greatly from a relationship with Canon of Japan in laser printers, but exploited its own technology in taking the lead in ink-jet machines.

The computer sector remains a difficult market, however, and investors are nervous.

A report of Mr Platt's remarks to analysts in Frankfurt last week caused havoc when it seemed he was warning of slowing sales and order growth in the second half of the year. The shares fell $7.50 to $79.50, and 160 analysts called HP's headquarters to check the accuracy of the report.

In fact, Mr Platt explained, he had made no prediction of sales growth: he had simply warned that growth in new orders was unlikely to reach the 26 per cent seen in the first half. "I do not want to come in with an 18 or 20 per cent order growth rate – which I think would be spectacular in this environment – and have the analysts say: 'Oh God, they're not at 25 any more'." Late last week, the shares settled at $81.

HP's trading performance over the past few years has been impressive at a time when IBM, Digital Equipment and the leading Japanese computer manufacturers have been making losses. Last month, the company reported a net income of $608m for the first half of the year, compared with $293m in the same period the year before.

Lewis Platt: hitting the mark with the right products

Mr Platt said order growth had been strong across all product lines and all geographies: "Europe was exceptionally strong, the US was good, the Far East was good and in Japan where we have been struggling, growth was in double digits."

HIS explanation why HP seems to be performing so well while others are in trouble turns on the company's domination of the desk-top printer business – not the sexiest of product lines, but a valuable model for the rest of the company.

"We were lucky to have been successful in laser printers," he said. "It is a business characterised by low margins and needs a radically different cost structure. So we started to work on our cost structures some years ago.

"It was logical to assume the same low margins would eventually be obtained in the rest of the business. Now in personal computers gross margins are probably 20 per cent, compared with the 60 per cent HP had been used to.

"We learned the lesson the whole computer business is going thorough and we learned it just that little bit ahead of everybody else".

He also drew attention to HP's product portfolio, ranging from palmtop personal computers to medical diagnostic equipment: "We have been good at hitting the mark with the right products."

HP, in fact, is harvesting the benefits of a bold decision in the mid-1980s to revamp its entire computer line to take advantage of a powerful but unfamiliar technology – reduced instruction set computing (Risc).

Invented by IBM, Risc computers get their speed and power from a combination of complex software and simple hardware. It was a troubled time for HP: "We were not in vogue at all then," Mr Platt says drily.

Today, all the leading computer manufacturers are turning to Risc and to open, or industry standard, systems. HP's version of Risc, Precision Architecture, is well-established and the basis of its healthy computer business. It is a key to client server computing, a significant trend today.

HP's move to Risc is an example of the way the company reinvents itself. Another is the rejuvenation of its test and measurement operations.

HP started in test and measurement; the division is 53 years old. Three years ago, however, profits slipped as spending in aerospace and defence declined and customers turned to computer workstations rather than dedicated instruments.

A re-engineering team moved in to spruce up the products and restructure the division. One decision was to develop equipment for the fast-growing telecommunications industry: "We jumped in with both feet," Mr Platt says. "That sector of the business grew 30 per cent last year."

He has three objectives for 1993 and beyond. The first is aggressive restructuring to improve profitability. The second he describes as "order fulfilment" by which he means tackling customer dissatisfaction – the company has the reputation, for example, of being difficult to deal with.

The third is to reinforce HP's culture with its emphasis on enlightened management.

When will he initiate HP's next round of re-invention? "What we are doing today is going to work for several more years," he says. "Open systems, the Unix operating system, client-server computing – we are in the early days of these trends."

Sara Lee buys stake in Italian knitwear company

By Nikki Tait

SARA LEE, the Chicago-based consumer products company, is buying a majority interest in Maglificio Bellia, an Italian knitwear company, for an undisclosed sum. The company's annual sales last year were about $130m.

Bellia's principal brand name is Liabel, and it employs around 800 people at three plants in the Piedmonte region.

Sara Lee, although probably best-known for its cakes and bakery products, has a large hosiery and knitwear products division.

Its sells under the Hanes brand name in the US, for example, the Dim's name in France, and has been expanding its presence in southern Europe.

COMPANY NEWS IN BRIEF

● PRINCE Alwaleed Bin Talal of Saudi Arabia sold 3.45m shares of Citicorp, the US banking group, on June 18 for $95.5m, or $27.625 a share, AP-DJ reports from Washington.

In a filing with the Securities and Exchange Commission, he said the Citicorp shares were sold in a block transaction.

The prince still holds a 9.99 per cent stake with outright ownership of 4.24m common shares and beneficial ownership of 36.87m upon conversion of preferred stock he holds.

With the preferred stock conversion, the he holds 41.11m common shares of Citicorp.

● BRITISH AIRWAYS yesterday announced it was to issue a Visa credit card for its US customers in partnership with Chase Manhattan Bank, writes John Gapper.

The card is to be marketed to Chase customers and members of BA's Executive Club US scheme.

The card, which will not be available in the UK, will offer bonuses in the form of credits for flights.

Customers will be able to redeem air miles on BA, USAir, American Airlines and Alaska Airlines flights.

INTERNATIONAL COMPANIES AND FINANCE

Two leading Japanese groups consider tie-up

By Emiko Terazono in Tokyo

THE SAISON Group and the Seibu Railway Group, two of Japan's largest conglomerates, are considering a business tie-up ranging from satellite television to credit cards.

The negotiations also come as Saison's flagship company Seibu Department Stores is hit by the sharp fall in consumer confidence, especially in top-of-the-range items.

The retailer recently started a restructuring programme, including the demotion of all board members. Seibu Department, which is not stock market listed, is understood to have posted a pre-tax loss for the year to last February.

Saison is led by Mr Seiji Tsutsumi, while his half-brother, Mr Yoshiaki Tsutsumi, who regularly features in lists of the world's richest men, heads Seibu Railway Group, the railways and leisure empire.

The business tie-up is seen as a reconciliation between the two men, who for years have been portrayed in the Japanese press as bitter rivals.

The two groups are looking to establish a new satellite television channel, using a new BS-4 satellite, where Seibu Railway, which holds a pro-baseball team, will supply sports software, while Saison will provide entertainment and arts information.

Seibu Railway and Saison are looking to combine each others' credit card business. Saison's credit card currently has some 10m holders, while Seibu Railway has a credit card network for its hotels.

The groups may consider integrating their hotel businesses. The Seibu Railway Group owns Japan's largest hotel network, while Saison bought a stake in Inter-ontinental Hotels in 1988.

● Seibu Department Stores plans to reorganise operations. The move highlights the severe problems Japanese retailers are facing as the current economic downturn is affecting consumer spending.

Seibu, the core operation of the Saison group, which includes Seiyu, the supermarket chain, currently has debts of around Y320bn ($2.93bn).

It said it was considering postponing future openings of new outlets and reorganising its affiliates.

Nokia returns to the black

By Hugh Carnegy in Stockholm

NOKIA, the Finnish electronics and telecommunications group, recovered to a pre-tax profit of FM154m ($28.5m) in the first four months from a loss of FM280m at the same stage last year, following rapid sales growth in telecommunications and mobile telephones.

A near 80 per cent rise in telecommunications sales to FM1.25bn and a 109 per cent increase in mobile phone sales to FM1.84bn pushed group sales to FM7.09bn from FM4.86bn.

Europe and eastern Asia accounted for much of the growth with new orders during the period, including cable TV transmission systems in Britain and China, a digital cellular telephone network to Germany, and strong demand for mobile handsets in Germany and Britain.

There was also strong sales growth - 51 per cent - in consumer electronics, which showed turnover of FM2.38bn due to increased sales of computer monitors.

But home electronics continued to suffer from weak demand and low prices, producing what Nokia called a heavy loss for the consumer electronics division. The cables and machinery business was also hit by continued recession in Finland and the slow pace of economic development in central Europe. Sales in this division fell slightly to FM1.36bn.

Mr Jorma Ollila, chief executive, said technological changes, coupled with strong demand, should sustain sales growth in telecommunications through the present economic slowdown in Europe. But he said internal cost reductions were not compensating for the slump in consumer electronics.

Nevertheless, he expected a better full-year return than last year's pre-tax FM158m loss. "We are very confident the result will be a significant improvement this year - but it is very difficult to be more specific in view of the uncertainties [in the market]."

COMPANY NEWS DIGEST

Siemens in Austrian stake talks

SIEMENS, the German electronics and electrical group, is in talks with the Austrian government to acquire up to 15 per cent of Austrian Industries (AI), the state-owned metals and mechanical company, writes Eric Frey in Vienna.

The transaction, which would be worth as much as Sch3bn ($256m), would give AI a badly-needed cash infusion and help cover its losses from its troubled aluminium subsidiary, AMAG, which last year ran up losses of Sch9bn.

AI is not stock market listed, but analysts put its value at Sch15bn to Sch20bn. This excludes AMAG, which is to be spun off from the main group to make the remaining steel and engineering activities more attractive for investors.

Beside Siemens, Bank Austria and the insurance group Wiener Staedtische are interested in taking small stakes in AI. By selling 25 per cent of its equity capital, AI is hoping to raise up to Sch5bn.

An agreement in principle between AI and Siemens, headed by chief executive Mr Heinrich von Pierer (pictured), could be ready in the early autumn. Through its subsidiary Siemens Austria, the German group has traditionally held close links with Austria's state-owned sector. AI holds a 26 per cent stake in Siemens Austria.

Last year, Siemens acquired 26 per cent of SGP-Verkehrstechnik, AI's rail systems unit, and the concern said it wanted to raise its stake to 50 per cent or more as part of its overall investment.

Heinrich von Pierer: early autumn agreement expected

Liquidation agreed for Danish group

A CONTROLLED liquidation of Commercial Holding, a leasing and property investment group, has been agreed by Danish banks, but their British counterparts have still to approve the plan, writes Hilary Barnes in Copenhagen.

Share quotations for the group's four companies, Commercial Holding, Commercial Leasing, Ballin & Herz and Brandt's Klaedefabrik, have been suspended in Copenhagen since the end of April.

The group's equity capital was a negative DKr617m ($96m) at the end of 1992, according to a stock exchange statement, compared with a positive DKr452m at the start of last year.

Danish creditors have agreed to convert DKr700m of their claims to equity capital to allow assets to be sold over a period of two years.

But the group has lost about DKr600m through leasing operations in the UK and British bank creditors have still to approve the liquidation plan, the statement said.

HSBC opens fifth China branch

HONGKONG and Shanghai Banking Corporation has opened its fifth branch in China in a further sign of foreign banks extending their presence on the mainland to take advantage of booming trade and investment opportunities, writes Tony Walker in Beijing.

HSBC's latest branch is located in Tianjin and will complement its branches in Shanghai and in southern China. Standard Chartered Bank and Banque National de Paris are among foreign banks in the north-eastern port city.

The People Bank of China, the country's central bank, has also approved applications by Crédit Lyonnais and Société General to establish branches in Tianjin. China's strategy is to open coastal trading cities to foreign banks as a first step towards allowing greater foreign involvement in its banking sector.

Forex savings rise at Bank of China

INDIVIDUALS' foreign exchange savings in the Bank of China reached $7.4bn at the end of May, $1.1bn more than at the beginning of this year. A bank official said that savings increased by a monthly average of $262m, compared with $138m last year, writes Tony Walker.

Many Chinese have rushed to convert their yuan savings into dollars because of the rapid depreciation of the local currency. The yuan has slid by more than 40 per cent against the dollar in the past year.

S&P downgrades Handelsbanken

SVENSKA Handelsbanken yesterday suffered a cut in its credit rating by Standard & Poor's despite being the only Swedish bank to have weathered the country's severe banking crisis without so far having to apply for state support, writes Hugh Carnegy.

S&P said it was downgrading Handelsbanken's $4bn of long-term debt from A+ to A and its subordinated debt from A to A- because of "persistent recession in Sweden and its impact on the strength of its balance sheet".

S&P also announced it was taking its ratings on Postipankki, a state-owned Finnish bank, off its creditwatch list where they were placed in February. But Postipankki's $3.6bn of long term debt was nevertheless downgraded from A to BBB+.

Politics ground Jordanian airline sell-off

By James Whittington in Amman

JORDAN'S economy is growing rapidly and the private sector is buoyant. But plans to privatise Royal Jordanian, the state-owned airline, have made little headway since the idea was first aired by the government five years ago.

The sale of the airline remains a difficult political pill for the government to swallow. The main problem lies with transforming it from an over-staffed and debt-laden operation into a business with clear investment appeal.

Royal Jordanian has borrowings estimated at between $250m and $300m, and although the airline is making steady profits at the operating level, they come down with a bump once borrowings costs are taken into account.

According to preliminary figures, operational profits for 1992 totalled $54.3m whereas interest payments were running at around $40m.

Last year, Mr Mahmoud Balqez, Royal Jordanian's chief executive, told a conference of regional directors: "One of the reasons for privatisation is the generation of enough cash and working capital vis a vis the presently acute undercapitalisation while we debate how best to meet our past obligations and re-start with a fairly clean slate."

Exactly how the slate will be wiped clean is not clear. The ball is very much in the government's court. Treasury officials say that more than 60 per cent of the airline's borrowings are included in Jordan's $6.5bn of foreign debt which is tightly managed under the watchful eye of the International Monetary Fund.

Observers blame the airline's stretched balance sheet on over-expansion during the 1980s and the cost of the Gulf war, notably soaring insurance premiums and the need to relocate large parts of its fleet to Vienna and Maastricht.

Another obstacle to be circumnavigated is the political sensitivity aroused by the prospects of mass redundancies as a result of privatisation. With a payroll of 4,700, Royal Jordanian is an important employer. Unemployment in the kingdom is presently running in excess of 20 per cent.

A government privatisation committee is currently working to develop a preliminary strategy for the flotation. It will shortly pick international consultancy to oversee the privatisation process. The short-list includes Arthur Andersen, Coopers & Lybrand, Ernest & Young, KPMG, Price Waterhouse and Deloitte Touche Ross.

According to members of the committee, the sell-off will occur in two stages. First, the airline will be registered, probably this year, as a government-owned company rather than a corporation.

Under its new guise, and in collaboration with the appointed consultancy, it will undergo a major restructuring. This will include increasing capital (presently $32m), rescheduling debts, and examining the profitability of fleet structure and routes.

Government shares will then be sold to private investors that may include other airlines. "We will be very responsive to know-how and experience, not necessarily capital," says a former minister of transport who has been closely associated with the privatisation debate.

With the tourist traffic recovering, the number of passengers carried rose by 40 per cent to 1.1m in 1992. Cargo operations carried 44.5m tonnes of freight compared with 41.6m tonnes in 1991 but remain well below capacity.

French rate cut prompts concern over Germany

By Peter John in London and Patrick Harverson in New York

A SURPRISE cut in French short-term interest rates yesterday set the European government bond market alight as economists became increasingly concerned for Germany's position as Europe's currency anchor.

Analysts said the French repo on Friday had not signalled a quarter-point cut in the key intervention rate and it was only yesterday morning that the market began to scent the possibility of an easing.

GOVERNMENT BONDS

Nevertheless, government bond investors took the cut well and after a brief bout of profit-taking, the September futures contract on the Matif rallied to close 0.26 points higher at 119.36.

In the cash market, the 10-year French OAT-German bund yield spread narrowed still further. The spread moved from 15 basis points at the end of last week to only 10 basis points at the close of trading yesterday, with some economists predicting parity within the next few months.

The crossover of French and German rates has now moved sharply along the yield curve, with French five-year rates conclusively below their German equivalent and seven year rates hitting parity.

■ GERMAN government paper suffered from growing currency worries and disappointing money supply figures.

Bund futures for September fell 22 basis points at one stage as the Bundesbank reported that M3 money supply growth had grown at a seasonally adjusted annualised rate of 6.7 per cent in May, the top end of the target range.

Bunds were also under pressure from the continued strength of the dollar against the D-Mark, which is seen as undermining the Bundesbank's desire to ease monetary policy.

September futures rallied to close 8 basis points lower at 95.27.

■ IN THE UK, gilts were helped by the French rate cut and the overspill from last week's encouraging financial data.

Government bond futures jumped from 105.23 to 106.06, consolidating last week's surge that followed news of inflation hitting a 33-year low.

Short-dated bonds were slightly firmer, but a rise in short sterling was principally attributed to a bounce following aggressive selling at the end of last week. Sunday newspaper comments that Mr Kenneth Clarke, the new chancellor of the exchequer, was poised to announce a half-point cut in interest rates ahead of the Christchurch by-election were discounted. "Most of the Christchurch electorate are holders of net assets – an interest cut would not be very tactical," said one economist.

■ PORTUGUESE government bonds rose sharply after a 25 basis point cut in the Bank of Portugal's key money rates sparked interest rate cuts across the board.

The reduction was a further signal of the ability of European central banks to cut rates independently of those in Germany. The intervention rate easing sparked a fall in money rates across the board. Overnight money eased to 12 per cent from 12.25 per cent on Friday and all Libor interbank rates slipped below 13 per cent.

■ FUTURES-led buying lifted longer-dated US Treasuries yesterday as the short end of the market readied itself for a big infusion of fresh supply.

By midday, the benchmark 30-year government bond was up ⅜ at 104 7/32, yielding 6.773 per cent. At the short end of the market, the two-year note was slightly easier, down 1/32 at 99 15/32, to yield 4.141 per cent.

Most of the activity was confided to technical trading by dealer accounts, with long prices rising mid-morning after the September Treasury bond contact rose through a key resistance level. Remarks from a senior Federal Reserve governor that he was encouraged by the recent inflation data may also have given longer-dated securities a boost.

Retail investors, meanwhile, were mostly absent from the market, awaiting today's sale of $16bn in two-year notes, and tomorrow's sale of $11bn in five-year notes.

■ THE "Balladur Bond", the French government's new FFr40bn four-year bond issue, is to be launched this Friday, raising funds for the country's economic recovery programme, writes Sara Webb.

French banking sources expect the coupon and commission on the Balladur Bond issue to be set later this week. The bonds, which mature on July 16 1997, can be converted into the shares of newly-privatised companies. The conversion rights are open to investors in France and other EC countries.

Bond analysts expect the coupon on the bond issue to be set at around 6.25 per cent, although the recent rally in the French government bond market fuelled speculation that the coupon may be set even lower.

However, market participants are still anxiously awaiting details of the bond's conversion rights.

The government has said that bondholders will have the right to convert into shares in newly-privatised companies as the government's privatisation programme gets under way.

The subscription period for the bond runs from June 25 to July 10.

Caisse Nationale de Credit Agricole (CNCA) and Banque Nationale de Paris (BNP) will be lead managers of the issue and Caisse des Depots Et Consignations (CDC) will be co-lead.

FT FIXED INTEREST INDICES

	June 21	June 18	June 17	June 16	June 15	Year ago	High *	Low *
Govt Secs (UK)	96.41	96.03	95.96	95.62	95.54	88.75	98.04	93.28
Fixed Interest	113.40	113.03	112.47	112.04	111.90	104.35	113.83	108.67

Basis 100: Government Securities 15/10/26; Fixed Interest 1928.
* for 1993. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75)
Fixed Interest high since compilation: 113.83 (8/3/93), low 50.53 (3/1/75)

GILT EDGED ACTIVITY

Indices*	June 18	June 17	June 16	June 15	June 14
Gilt Edged Bargains	105.3	102.1	100.0	114.9	84.7
5-Day average	101.4	95.3	92.7	91.5	84.7

* SE activity indices rebased 1974

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		6.500	08/03	113.2239	+0.297	7.60	7.68	7.70
BELGIUM		9.000	03/03	112.4700	+0.160	7.18	7.24	7.40
CANADA *		7.250	06/03	99.1500	+0.350	7.37	7.47	7.62
DENMARK		8.000	05/03	107.1500	+0.550	6.97	7.13	7.52
FRANCE	BTAN	8.000	05/98	107.2945	+0.246	6.21	6.41	6.64
	OAT	8.500	04/03	111.8800	+0.300	6.80	6.94	7.18
GERMANY		6.75	04/03	100.3150	-0.020	6.70	6.75	6.91
ITALY		11.500	03/03	101.7650	+0.590	11.50†	11.94	12.25
JAPAN	No 119	4.800	06/99	102.6788	-0.173	4.24	4.32	4.61
	No 145	5.500	03/02	106.7460	-0.373	4.43	4.42	4.72
NETHERLANDS		7.000	02/03	103.3200	+0.080	6.51	6.58	6.73
SPAIN		10.300	06/02	98.7821	+0.282	10.33	10.70	11.02
UK GILTS		7.250	03/98	100-31	+9/32	7.00	7.04	7.11
		8.000	06/03	101-23	+20/32	7.76	7.91	8.06
		9.000	10/08	107-18	+20/32	8.13	8.30	8.48
US TREASURY *		6.250	02/03	102-15	+11/32	5.91	5.95	6.18
		7.125	02/23	104-04	+8/32	6.80	6.80	7.03
ECU (French Govt)		8.000	04/03	105.8700	+0.300	7.14	7.31	7.48

London closing, *denotes New York morning session. Yields: Local market standard
† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)
Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

Dutch Treasury bond trading system launched

By Ronald van de Krol in Amsterdam

FIVE foreign banks and brokerage houses have been accepted as special corporate members of the Amsterdam stock exchange so they can take part in a new inter-professional trading system for Dutch government bonds that was officially launched yesterday.

The new Amsterdam Treasury Bond Market (ATM), designed to allow direct dealing in transactions exceeding Fl 2.5m ($1.3m), is part of the Dutch exchange's continuing campaign to win back trading in stocks and bonds that has seeped away to London.

The next significant step is scheduled for early 1994, when the share trading system will effectively be split between the wholesale and retail markets.

The five, mainly London-based foreign members are Goldman Sachs International, J.P. Morgan Guarantee Trust, Salomon Brothers International, Warburg Securities and the UK securities subsidiary of Dutch bank ABN Amro.

The Amsterdam stock exchange said it expected that within the next two weeks four more foreign banks and brokers would take out a special membership, costing Fl 40,000, which was needed to give them access to ATM.

Under Amsterdam's new bond trading rules, transactions below Fl 2.5m will remain the preserve of the central trading system, in which orders must be channelled and executed through one of two "hoekman" (or market specialist) firms in the field of Dutch government bonds, Bondgeest & Springer and Van Hees.

Under ATM, by contrast, a joint venture between these two "hoekman" firms, Bondgeest & Van Hees, will run an order book in the form of a non-interactive screen and also act as interdealer broker, if required.

Participants can close deals either by using the inter-dealer broker or by direct trading between institutions.

Morocco may return with sovereign issue

MR MOHAMED Berrada, the finance minister of Morocco, said the country was likely to re-enter global capital markets shortly with a sovereign bond issue, Reuter reports.

He said the country was prepared to borrow small amounts at short maturities in the international markets. He noted, however, that some banks were bombarding him with requests to bring Moroccan bond deals to market, and drew a parallel with the 1970s when banks lent money freely to the third world and ended up with a debt crisis.

"In our strategy, we want to return to the market but I don't want to increase my external debt. If I want debt, I only want it for private sector companies," he said during a visit to New York to promote Morocco among investors.

Mr Berrada said a small sovereign bond issue would be necessary to get the ball rolling before private companies returned to the market.

The minister's visit to New York has helped prompt a three-point rally in the price of Moroccan debt in the secondary market, dealers said.

It is currently trading at 66⅜ per cent of face value, a discount that Mr Berrada said was not justified because the country had always serviced its debt. "If you want to make very big money very quickly, you buy Moroccan debt," he said.

The government is currently considering the possibility of allowing the use of discounted Moroccan foreign loans in debt-for-equity swaps in the tourism and agro-export sectors, said Mr Berrada.

Mixed response to partly-paid structure of Tesco £200m deal

By Tracy Corrigan

TESCO, the UK supermarket chain, launched a £200m issue with an unusual partly-paid structure more typically seen in the gilts market, which met a mixed reaction.

INTERNATIONAL BONDS

Some dealers said the structure proved a deterrent to some investors, particularly foreign investors who expect sterling to appreciate.

But lead manager Credit Suisse First Boston argued that the structure appealed to foreign investors who do not want to take a view on the currency and to retail investors.

The structure of the deal suited Tesco, which does not need the proceeds immediately, but wished to take advantage of favourable market conditions.

The 9½-year deal was launched at a yield spread of 68 basis points over the 8 per cent gilt due 2003 (or 50 basis points, if the partly paid feature were stripped out).

Dealers said that there was still strong demand for sterling bonds following the recent spate of new issues, but investor demand is drawn to either very high quality paper, or high-yielding paper. Some said that Tesco, rated Aa3 by Moody's, fell into neither of these categories. But CSFB said that with Eurosterling spreads at historically tight levels, investor interest was piqued by bonds offering a spread of 50 basis points or more over gilts.

In the dollar market, two companies issued bonds under newly created Euro medium-term note programmes.

Energie Beheer Nederland, the Dutch state-owned gas production company, launched a $300m seven-year deal under its new $1.5bn programme, at a spread of 24 basis points. The deal was considered a touch aggressive, but the borrower's AAA rating and rarity value helped fuel demand.

A $250m three-year deal for Sony Capital, the US arm of the Japanese electronics giant, issued under its new $1bn Euro MTN programme, was considered tightly priced at 50 basis points over the comparable Treasury yield. The company's debt is rated Aa3 by Moody's, but was recently downgraded by S&P to A. However, lead manager Goldman Sachs said the name appeals to retail investors. The spread widened to 52 basis points.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Energie Beheer Nederland	300	5.75	99.165R	Jul.2000	0.3R	+24 (5¾%-00)	Swiss Bank Corp.
Sony Capital Corp.	250	5	99.65R	Jul.1996	0.225R	+50 (4¼%-96)	Goldman Sachs Intl.
Shearson Lehman Bros. Hldgs.‡	150	(a)	99.91R	Jul.1995	0.25R	-	Lehman Brothers Holdings
Kommunivest I Orebro Lan‡	100	(b)	99.94R	Jul.1998	0.2R	-	Lehman Brothers Holdings
Banco BMC	50	10.25#	99.61R	Dec.1995	-	-61/2 (c)	West Merchant Bank
FRENCH FRANCS							
Dept. des Hauts de Seine	600	7	99.65R	Jul.2003	0.325R	+25 (6¾%-03)	Banque Paribas
STERLING							
Tesco(d)	200	8.75	20.45R	Feb.2003	0.375R	+68 (8%-03)	CSFB
IRISH POUNDS							
World Bank	40	7.625#	99.23	Dec.2002	-	-21 (c)	Riada - ABN Amro
SWISS FRANCS							
SNCF(e)	150	4.5	101.5	Apr.2001	-	-	UBS

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Coupon pays 3-month Libor + 0.7%. b) Coupon pays 3-month Libor + 0.1575%. c) Spread is over the interpolated yield curve. d) Partly paid issue: 20.45% due on 14/7/93 and 80% on 20/2/94. e) Fungible with the outstanding SFr300m. Plus 122 days accrued interest.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:05 pm on June 21

	Issued	Bid	Offer	Chg. day	Yield
U.S. DOLLAR STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OTHER STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DEUTSCHE MARK STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SWISS FRANC STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YEN STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FLOATING RATE NOTES	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CONVERTIBLE BONDS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* No information available - previous day's price
† Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (‡ three-month; §above mean rate) for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	64	0	13
Other Fixed Interest	11	1	3
Commercial, Industrial	380	174	847
Financial & Property	190	123	485
Oil & Gas	29	10	44
Plantations	0	2	6
Mines	86	6	47
Others	59	24	45
Totals	819	340	1,490

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renun. date	1993 High	1993 Low	Stock	Closing Price p	+or-	Net Div.	Times Cov'd	Gross Yield	P/E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renun. date	1993 High	1993 Low	Stock	Closing Price £	+or-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renun. date	1993 High	1993 Low	Stock	Closing Price p	+or-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

TRADITIONAL OPTIONS

● First Dealings June 14
● Last Dealings June 25
● Last Declarations Sep. 16
● For settlement Sep. 27

3-month call rate indications are shown in Saturday editions.

Calls in Benson Group, Budgens, Division, Enterprise Computer, Greycoat, Heritage, Microvitec, Mid-States, Millwall, Phonelink, Ransomes Conv. Pref., Ratners Ord. & Pref. and Tadpole Tech. Put in Ratners. Doubles in Enterprise Computer and ML Labs.

FT-SE ACTUARIES INDICES

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LIFFE EQUITY OPTIONS

Option		Calls			Puts		
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

June 21 Total Contracts 24,573. Calls 13,070 Puts 11,503. FT-SE Index Calls 3,245 Puts 3,459. Euro FT-SE Calls 1,521 Puts 1,761. *Underlying security price. Premiums shown are based on closing offer prices.

FT-ACTUARIES FIXED INTEREST INDICES

PRICE INDICES

	British Government	Mon Jun 21	Day's change %	Fri Jun 18	Accrued interest	xd adj. 1993 to date
1	Up to 5 years (26)	127.27	+0.19	127.03	1.46	5.71
2	5-15 years (21)	148.24	+0.49	147.52	1.91	6.86
3	Over 15 years (9)	161.38	+0.56	160.47	2.84	4.35
4	Irredeemables (6)	181.74	+0.85	180.21	[illegible]	[illegible]
5	All stocks (62)	144.64	+0.42	143.57	1.80	6.04
	Index-Linked					
6	Up to 5 years (2)	184.83	+0.02	184.76	1.08	1.92
7	Over 5 years (11)	174.35	+0.09	174.34	0.60	2.82
8	All stocks (13)	174.84	+0.08	174.61	0.66	2.83
9	Debs & Loans (65)	131.09	+0.55	130.54	2.32	5.09

AVERAGE GROSS REDEMPTION YIELDS

			Mon Jun 21	Fri Jun 18	Year ago (approx.)
	British Government				
1	Low	5 years	7.06	7.12	8.14
2	Coupons	15 years	7.84	7.84	8.97
3		20 years	7.78	7.84	8.97
4	Medium	5 years	7.28	7.32	8.71
5	Coupons	15 years	8.13	8.21	9.12
6	(8%-10¾%)	20 years	8.22	8.32	9.10
7	High	5 years	7.46	7.49	9.00
8	Coupons	15 years	8.27	8.32	9.28
9	(11%-)	20 years	8.23	8.26	9.20
10	Irredeemables(Flat Yield)		8.44	8.52	9.25
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	3.00	3.00	3.58
12	Inflation rate 5%	Over 5 yrs.	3.51	3.52	4.33
13	Inflation rate 10%	Up to 5 yrs.	2.21	2.21	3.23
14	Inflation rate 10%	Over 5 yrs.	3.34	3.35	4.14
15	Debs &	5 years	8.77	8.80	10.58
16	Loans	15 years	9.13	9.21	10.43
17		25 years	9.20	9.28	10.31

New businesses contribute £1.16m to operating profits of £5.95m

Acquisitions help JLI leap 64%

By Catherine Milton

THREE acquisitions helped JLI Group, the dried fruits, nuts and pickle ingredients processor, lift pre-tax profits by 64 per cent, from £3.17m to £5.2m, in the year to March 31.

The group bought food processors TG Smith (Fine Foods) for £800,000 in April and Cadec in June for £500,000, as well as packer and distributor Brookerpaks for £2.5m in September.

Two rights issues in as many years, which raised £20.7m net, funded the acquisitions. Gearing fell from about 33 per cent to 14 per cent and interest payments to £734,000 (£940,000).

The new businesses contributed £1.16m to operating profits of £5.95m (£4.11m) and £20.4m to turnover of £104.7m (£84.3m). Operating margins climbed for the sixth successive year, reaching 5.7 per cent (4.9 per cent).

Earnings per share rose to 9.3p (8.8p, adjusted for the rights issues). The final dividend is 3.1p giving a total of 4.65p (4.5p).

Mr Yoav Gottesman, chief executive, said: "Our declared strategy is to improve the quality of our business and earnings through the development of higher margin, value added activities in food processing and distribution." He said the company was aiming to grow organically and through acquisition.

Devaluation of sterling will have an effect as the increase in relative raw material prices collided with the competitive squeeze on retail prices.

The group said following the acquisitions its snacks division had 20 per cent of the UK nut market. The snacks businesses were now integrated under the renamed Tee Gee Snacks with a newly appointed managing director, Mr Peter Clee.

In the ingredients division, Jack L Israel (Norfolk) and Langwoods, both food processors, had a "disappointing year" with selling prices depressed by low fresh produce prices.

However, Jack L Israel's distribution business performed well and the division benefited from acquisition.

Kingfisher expands Charlie Browns

By John Griffiths

KINGFISHER, the retailing group, is expanding its Charlie Browns motor parts and fast-fit superstore chain by buying 18 similar outlets from the Unipart Group. The purchase, for about £3m, will increase the Charlie Browns network to 79 outlets.

The Unipart outlets are concentrated in the Midlands and Wales whereas the existing Charlie Browns network is mainly in the north of England.

Unipart, which defied the recession last year to increase pre-tax profits by 29 per cent to a record £19.1m, is quitting the aftermarket superstores sector, partly in order to concentrate on its manufacturing activities.

It has acquired component supply contracts with Toyota and Honda, as well as with Rover Group, its former owner. It regards the UK's expanding car manufacturing industry as more attractive than the fiercely-competitive, and still heavily depressed, aftermarket sector.

However, both Charlie Browns and the Unipart outlets were said by their respective owners yesterday to be operating profitably.

Unipart confirmed yesterday that it is continuing to negotiate the possible purchase of Multipart, the parts distribution operation for Leyland trucks, based in Chorley, Lancashire. Whereas both the truck and van making arms of Leyland DAF have been sold by the receivers to management buy-out teams, Multipart remains in receivership.

Unipart is competing for the profitable Chorley operations against a management buy-out team, but denies reports that bids of up to £100m might be in prospect.

Danka takes first step into Europe with £9m buy

By Peggy Hollinger

DANKA Business Systems, the acquisitive US-based office equipment supplier quoted in London, yesterday announced its first move into Europe with the £9m purchase of a private UK copier company.

Mr Dan Doyle, chief executive, said the purchase of Saint Group marked the beginning of an acquisition campaign in the UK.

"Now is the right time to unfold our strategy of seizing fragmented markets," he said. "I believe the opportunities in the UK are very exciting."

Although Mr Doyle said in May that Danka would fund purchases through cash flow and recently increased banking facilities, the latest acquisition will be paid for with the issue of 1.1m shares and cash of £498,000.

The vendors of Saint, who will have some 3 per cent of the enlarged company, have agreed to retain more than 90 per cent of their shares for an unspecified time.

Mr Martin St Quinton, Saint's majority owner, has also entered into a three-year employment contract to run Danka UK, as Saint will now be called.

Saint, which distributes Canon, NEC, Konica, and Risograph equipment, reported pre-tax profits last year of £752,000 on sales of £13m.

The group claims net assets of £1.3m.

Mr Mark Vaughan-Lee, Danka's chairman, said he expected Saint's profits contribution to be significantly higher in the current year, due to the disposal of two loss-making businesses before being taken over.

Johnson Matthey chief takes 32% pay increase

By Kenneth Gooding, Mining Correspondent

THE PAY of Mr David Davies, executive chairman of Johnson Matthey, the advanced materials technology company, rose 32 per cent last financial year, from £184,016 to £242,980.

This followed a 25.5 per cent pay rise for 1990-91.

According to the annual report, Mr Davies's pay last year included a performance-related bonus for the first time - of £42,534.

It said bonuses were determined by the management development and remuneration committee "for the achievement of budgeted profit targets and personal objectives which are set at the beginning of the financial year."

Bonuses are disclosed in the year in which they are paid rather than the one in which they are earned.

Mr Davies's basic pay rose by 9 per cent to £200,446 last year compared with a 9.8 per cent increase to £73.8m in the group's pre-tax revenue. Payments to shareholders were lifted by 6.7 per cent to 10.3p.

Since Mr Davies became chairman in January 1991, JM has virtually completed a rationalisation programme which, among other things, has seen its workforce fall from 7,358 to 6,142. This boosted profit per employee from £5,800 in 1989-90 to £11,800.

In his annual statement sent to shareholders yesterday, Mr Davies estimated that without the rationalisation JM's costs in 1992-93 would have been higher by £25m.

Allen hit by construction decline as profits fall

By Peter Pearse

PRE-TAX profits at Allen were halved from £3.21m to £1.51m in the year to March 28 as the construction industry continued to decline, undermined by high interest rates in the first half and "political and economic uncertainty" in the second. Turnover fell to £52.2m, against £58.9m.

While announcing the results, Mr Donald Greenhalgh, chairman and managing director of the group, which has interests in housebuilding, contracting, hire services and property development and investment, inveighed against pay rises for directors even when their companies have fallen into losses, long service contracts and share options.

This time, Allen's six board directors shared £417,000 for basic salaries, benefits in kind, and pension contributions, against £456,000 previously. Some £440,000 is expected for this year. Further, main board directors received no performance-related bonuses (last time £135,000 was paid), though Mr Greenhalgh said directors and staff of particular companies were rewarded for meeting pre-set targets.

Margins in the housebuilding and hire services sides were hit as operating profits declined 27 per cent to £1.47m and 45 per cent to £410,000 respectively. Their turnovers were more or less static at £15.9m and £7.8m respectively. Completed houses rose by 9 to 280.

Mr Ken Fox, deputy managing director, said that Allen had now left the speculative development market, but that property investment was "a steady earner".

Divisional profits tumbled to £42,000 (£150,000) on turnover of £437,000 (£1.6m). Contracting made £780,000 (£1.5m) on turnover down at £26.8m (£32.9m). After a one-off 25.9 per cent tax charge, earnings per share only declined to 5.05p (9.69p), allowing the maintained total dividend of 5p to be covered. The final is a proposed 3.35p.

Cost cutting bears fruit as Renold returns to black

By Paul Taylor

COST CUTTING and productivity gains helped Renold, the chain and gear maker, return to profit last year, even though trading conditions remained difficult in its important western European markets.

The group reported pre-tax profits of £1.2m in the year to April 3, compared to a loss of £3m, on turnover increased by 3.5 per cent to £125.1m (£121.5m).

The £4.2m turnround reflected gains in efficiency and margins rather than any overall increase in volume. The results came after charging £1.4m for redundancy costs, against £1.6m last year.

Following a lengthy period of reorganisation, the group's chain operations had settled down and were beginning to deliver "steadily improving results."

Productivity at the Bredbury chain factory had increased markedly, the French business returned to profit, benefiting from growth in automotive chain volumes and greater manufacturing efficiency and, despite lower domestic orders, German results also improved.

In the Milnrow gears operation profitability was affected by weak demand and intense competition for standard gearboxes, while the couplings business at Cardiff produced "an excellent performance."

The US operations, where significant cost reductions were made the previous year, returned to profit, and by the final quarter the devaluation of sterling began to benefit profit margins on products exported from the UK.

Mr Peter Frost, chairman, said trading conditions had strengthened in some of the group's worldwide markets, particularly Australia and New Zealand, but prospects in western Europe remained uncertain.

He added that the full effect of the devaluation of sterling would benefit the current year, "as will actions which have been taken, and continue to be taken, to strengthen the business."

Interest charges increased to £1.9m (£1.8m) while net borrowings at the year-end declined slightly to £12.1 (£12.8m) and gearing fell by 2 percentage points to 23 per cent.

Earnings per share were 0.9p (losses 5.6p). The dividend is unchanged at 1p.

Placing gives Enviromed £15.8m tag

By Richard Gourlay

ENVIROMED, a biotechnology and healthcare group, is to float later this month via a placing that will value the company at £15.8m.

The group designs and develops day care surgeries and makes and installs hospital operating theatres as well as applying biotechnology to monitor the environment.

Its environmental sensor products are marketed and distributed through a subsidiary of Halma, the safety and environmental control group.

Enviromed also tests the interaction between chemical products and the environment. It expects to make a profit of about £500,000 on sales of £5m in the year to September 30.

Société Générale is placing 3.73m shares at 110p. About 3.1m, of the 14.4m shares that will be in issue, are being placed on behalf of the company. This will raise £2.96m after expenses which will be used to consolidate group operations at one site in Milton Keynes and will provide about £2m of working capital for growth.

Existing shareholders are raising about £680,000 which will be used to repay family and friends who have financed group development to date.

Sir Geoffrey Allen, who was research and engineering director at Unilever until 1990 and a non-executive director of Courtaulds, will be non-executive chairman.

FGP to acquire commercial printer in £1.5m deal

By Raymond Snoddy

THE FINANCIAL & General Print Group is to take over Brown Knight & Truscott, one of the UK's oldest commercial printers, founded in 1825.

Both companies specialise in corporate and financial publishing with clients ranging from ICI and Guinness to The Body Shop and the Milk Marketing Board. FGP, based in Edmonton, London, was founded only eight years ago.

Mr Michael Brown, whose family has been involved with Brown Knight since 1855, will become chairman of the new company trading under the Brown Knight & Truscott name. The combined turnover of group will be £10m.

Brown Knight incurred a pre-tax loss of £914,000 on sales of £7.1m in the year to end-March 1992.

The acquisition, believed to be worth about £1.5m, will create a company with an estimated 10 per cent share of its specialist market.

Brooke Tool cuts losses to £397,000

Pre-tax losses at Brooke Tool Engineering (Holdings) were cut from £1.57m to £397,000 in the six months to the end of March. Turnover fell to £7.22m, against £9.66m which included £1.82m from discontinued activities.

Mr Bernard Friend, chairman, said that the cutting tool companies, which had been a problem area, had improved profitability and seen strengthened order books.

The interest charge was cut from £406,000 to £257,000. Losses per share were 1.1p (3.5p).

Falling demand behind British Steel deficit

By Andrew Baxter

BRITISH STEEL yesterday reported its worst annual figures since privatisation in 1988 with a pre-tax loss of £149m for the year ended April 3. The final dividend is cut from 1.5p to 1p.

The loss, in line with market expectations, compared to a deficit of £55m a year earlier, and reflected continuing difficult trading conditions.

Mr Brian Moffat, chairman and chief executive, said: "Falling demand both in the European Community and elsewhere and excess production capacity resulted in significant price reductions across most product areas."

Turnover fell from £4.6bn to £4.3bn, and a trading loss of £113m (£98m) was incurred. The latest pre-tax loss was struck after the company's share of associates' losses of £19m against £6m profits last time – and net interest.

The attributable deficit was £130m (£34m) and losses per share widened from 1.7p to 6.5p.

UK demand for British Steel's main finished products fell 4 per cent to 8.2m tonnes. Total sales volume slipped from 12.2m tonnes to 11.9m, reflecting an 8 per cent fall in UK deliveries and a 4 per cent rise in export volume.

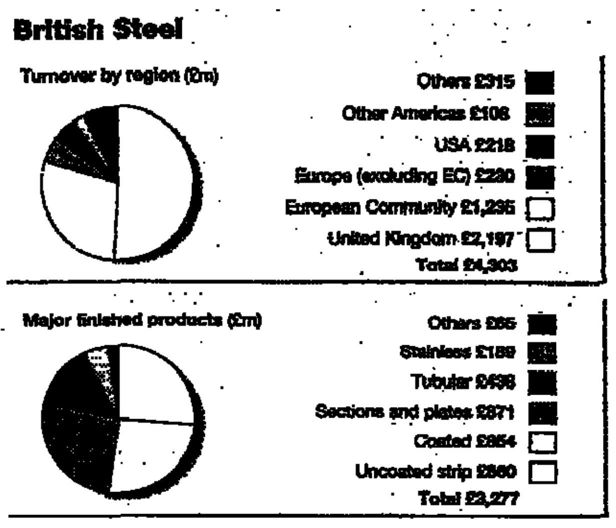
Explaining the dividend decision, Mr Moffat said the board had decided in November not to pay an interim dividend, but indicated that in the absence of unforeseen circumstances a final of 1p would be paid.

Subsequently, said Mr Moffat, steel prices throughout Europe fell even further, but this had recently started to be reversed. "Prices for steel products are beginning to move towards more realistic levels, although they still remain some 10-25 per cent below mid-1989."

Mr Moffat said that, overall, short-term prospects had improved but the situation remained "fragile." Sustained recovery was heavily dependent on the proposed restructuring of the European steel industry, and particularly on effective controls by the EC on the continued availability of state aid for some producers.

With these issues still to be resolved, the recommended 1p final compares with the previous year's total of 4.5p.


Trevor Humphries
Brian Moffat: price reductions across most product areas



However, Mr Moffat warned that the reinstatement of dividend payments to more normal levels would require "a sustained recovery in the profitability of the company as well as the continued maintenance of a sound financial position."

Looking ahead, British Steel said economic activity in continental Europe, particularly Germany, had declined in the past year and many countries were now in recession. Recovery in the UK appeared to be under way, but was likely to be slow, and the advantages of devaluation would be restricted by the weak state of most export markets.

In the UK, steel-using sectors were likely to recover at different rates. Output in the automotive sector was expected to recover due to a combination of growing demand and the export potential of new UK producers.

But construction output was expected to decline further this year. Overall UK steel consumption is expected to lag behind a general recovery in the UK economy.

British Steel's capital expenditure dropped from £255m in 1991-92 to £197m, and numbers employed at year-end fell from 49,500 to 42,100. However, some 3,300 of this reduction was accounted for by the creation of Avesta Sheffield, the Anglo-Swedish stainless steel producer into which British Steel Stainless was merged last November.

Zeneca rights likely to be seen as a success

By Maggie Urry

THE £1.3bn rights issue from Zeneca, which closed at midnight, is likely to be seen as a success.

With the shares standing at 618p yesterday, down 4p, compared to the 600p rights price, institutional investors are expected to have taken up their rights.

The stock market was apparently unworried by the issue, with the FT-SE 100 index rising 24 points to close at 2903.4 yesterday.

However, Zeneca, the bioscience business demerged this month from ICI, has a larger proportion of private shareholders than many companies, estimated at near 25 per cent of the capital.

Such investors are usually less likely to exercise their rights than institutions.

As a result the take up could be less than the 90 per cent plus figure often regarded as a good result for a rights issue.

However, SG Warburg, the lead underwriter to the issue, would hope to place any rump in the market rather than make a call on sub-underwriters to fulfil their obligations.

With such a large issue, even a small percentage left would represent a sizeable placing in money terms.

Investors may be encouraged to buy extra shares because of the high yield Zeneca offers, and the feeling that healthcare stocks have been oversold because of fears regarding the impending healthcare reforms in the US.

Alexon requests suspension of shares

By Angus Foster

SHARES IN Alexon Group, the women's wear retailer, were suspended at the company's request yesterday morning following press speculation about its refinancing plans, first announced last month.

The shares were suspended at 78p, compared to the peak of 444p following the 1991 demerger from Claremont Garments (Holdings), the Marks and Spencer supplier.

The group, which has seen bad news mount since the beginning of last year, said "negotiations for the raising of new equity capital and for new bank facilities are nearing completion".

In April the chairman and two chief operating officers were removed following pressure from institutions. Alexon's largest institutions are thought to have refused to back a rights issue, needed to reduce borrowings of more than £20m, without the board changes.

Alexon is later this week expected to restate its results for the 53 weeks to January 30. As previously reported, it incurred a pre-tax loss of £986,000.

The company sought a suspension because it could be several days before the audited results and details of the new funding requirements are ready. In consultation with the Stock Exchange, it was decided a suspension would reduce uncertainty ahead of the announcement.

Clark chairman quits in aftermath of failed bid

By Peggy Hollinger

MR WALTER Dickson, chairman of C&J Clark, has announced his resignation from the family-owned shoe company which recently rejected a controversial bid from Berisford International after months of boardroom dissention.

Mr Dickson, appointed on a three year contract in 1991, is expected to step down within the next three months.

The chairman, who backed the Berisford bid, will receive no compensation payments other than the outstanding balance of his salary which was £206,000 last year. He will retain options, which must be exercised by 1995, over 615,000 shares at 130p. Earlier this year, the shares were valued at 100p.

The resignation was widely expected following the extraordinary meeting in May, where shareholders agreed to implement corporate governance proposals in a bid to fend off Berisford.

In a letter to shareholders this weekend, Mr Dickson said flotation was expected to occur within three to four years. He also announced that Mr Roger Peddar, a director, had been appointed deputy chairman.

Speaking from his home, Mr Dickson said the difficulties of the past year had "reflected the deep-seated problems of coming to the conclusions they (Clark shareholders) had to come to . . . I acted as the agent of change."

Success would now depend on implementing to the full all the promises made at the EGM, he said. Flotation must be done on "a proper basis . . . with no strange mechanisms". Clark has in recent years considered flotation through the issue of preference shares which would leave the controlling family shareholding intact.

Mr Dickson also said Clark, which saw pre-tax profits fall from £20.4m to £1.7m last year, had returned encouraging results in recent months particularly in light of the devaluation of sterling.

It is expected that the company will return profits of more than £16m in the current year.

NIE shares rise 26% amid heavy trading

By Michael Smith

SHARES IN Northern Ireland Electricity rose more than 26 per cent yesterday amid heavy trading, on their first day on the market following privatisation.

The price of the partly paid shares touched 130p at one stage, against the flotation price of 100p, before ending the day at 126½p.

Analysts said yesterday NIE was likely to stay at about yesterday's closing level in the next few days.

At yesterday's close, the shares were trading at a yield on 1992-93 earnings of 5.2 per cent, about the average for regional electricity companies in England and Wales.

SG Warburg Securities was advising clients to sell when the price rose above 125p.

Mr Nicholas Pink, an analyst, said it was difficult to see how NIE could outperform the market above that price.

However, some institutions were looking to buy shares in the company because they had been unable to pick up the weighting they sought during privatisation. The shares were subscribed 2.7 times.

During the day 51m of the 164.6m shares changed hands, making NIE the heaviest traded stock on the market for the day.

Interim certificates are due to be despatched on Thursday.

Carlton plans move into Asian television

By Raymond Snoddy

CARLTON Communications, the broadcasting and television services group is planning an expansion into the Asian television market.

Mr Nigel Walmsley, managing director of Carlton Television, the weekday ITV company for the London region, has recently returned from exploratory talks with leading broadcasters in the region.

The company, already well known to Asian broadcasters through Quantel, its broadcasting equipment division, is now keen to explore everything from equity stakes in Asian broadcasters to joint ventures on new channels.

Mr Walmsley had talks in Hong Kong with Star TV, the Asian satellite venture which claims more than 45m viewers in 38 countries and with the Hong Kong domestic broadcasters Television Broadcasts (TVB) and Asia TV.

Earlier this month, Mr Rupert Murdoch's News Corporation signalled its intention to become a significant force in the region with an agreement to pay HK$1.85bn (£161m) for a 22 per cent stake in TVB.

Star has been talking to a number of potential investors while making it clear that it is mainly interested in joint ventures on the programming side rather than equity investments in the holding company.

Carlton has been looking at the potential of television investments in Singapore and mainland China.

Shield Diagnostics plans flotation later this year

By James Buxton, Scottish Correspondent

SHIELD Diagnostics, a Dundee-based biotechnology company, is planning a flotation in September or October.

Until recently it was incurring heavy losses but has achieved success with selling kits to diagnose a number of common diseases in the UK, continental Europe and North America.

It made a pre-tax loss of £1.4m on sales of £445,000 in the year to March 31 1992. But Mr Hamish Hale, chairman, said that in the last financial year sales were a multiple of those in 1992. It broke even in the last quarter, but incurred a loss over the year.

Shield's kits are used to diagnose genito-urinary infections such as chlamydia, and auto-immune diseases.

The company is also developing a product which tests for incipient heart attacks in collaboration with Stago Diagnostica of France, using funds from the EC's Eureka programme for technological innovation.

Apax, formerly Alan Patricoff Associates, the venture capital company, is a large shareholder. Mr Hale is a director of Apax and also has a personal equity stake in the company.

Details of the flotation have not been decided. The company's stockbroker is Allied Provincial.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Allen §	fin	3.35	July 31	3.35	5	5
Amberley	fin	1	Oct 1	1	1	1
British Steel	fin	1	Aug 16	1.5	1	4.5
Dartmoor Inv Tst	fin	3.9†	July 30	3.8	11.6	11.2
Fletcher King	fin	0.5	Oct 1	0.5	0.5	0.5
JLI	fin	3.1	Sept 9	3	4.65†	4.5
Polar	int	2	Aug 13	2	-	4.5
Renold	fin	1	Aug 12	1	1	1
Siam Selective	fin	1	Sept 10	0.25	1	0.25

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

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COMPANY NEWS: UK

Pressing in on the inner circle to escape a slow and painful death

Andrew Baxter examines the strategy underlining Stadco's delight at winning a £21m order from German carmaker Audi

FEW THINGS cheer hard-pressed manufacturers so much as winning a first-ever contract in a difficult foreign market against entrenched rivals. When that market is Germany, UK carmakers need all the help they can get.

In March, Shrewsbury-based Stadco, part of publicly-quoted Hall Engineering (Holdings), announced a £21m order from Audi, part of the Volkswagen group, to supply vehicle assembly equipment and related tooling – its first order from a German-owned car company.

Last September's devaluation of the pound against the D-mark helped, says Mr Alan Mace, Stadco's managing director.

But the victory was also the result of months of close technical and commercial collaboration between the two companies in a market where suppliers increasingly need to get in early if they are to influence production processes.

Devaluation could not have come at a better time for Stadco. Coupled with the German motor industry's new found commitment to outsourcing components and manufacturing equipment beyond its traditional domestic suppliers, the company has a special opportunity to expand its presence in the European automotive market.

Mr Mace wants to lift Stadco from the second tier of equipment suppliers up to, or close to, the hallowed inner circle of three big European suppliers: Comau of Italy and Kuka and Thyssen of Germany. As the carmakers reduce the number of suppliers with which they deal, Mr Mace wants Stadco to be on as many contract short lists as possible.

But he also believes that the devaluation, and the experience gained from working with the Japanese car producers or the Japanese-influenced motor industry in the UK – such as Rover – puts Stadco in a good position to develop its automotive pressings business.

Working with Japanese vehicle manufacturers in the UK has prompted Stadco to adopt their "cost-down" approach, eliminating waste, implementing continuous improvement programmes, and tightening stock control in a way that has yet to be achieved by continental European pressing companies.

German vehicle manufacturers, too, have been slow to specify Japanese production equipment, he says, but could buy from Stadco, which has incorporated some elements of Japanese "lean" manufacturing techniques into its own equipment.

Mr Mace's ambitions for Stadco look like turning it into an increasingly important part of Hall, which is best known for its steel stock holding and construction product interests.

Stadco is the successor to the old Chatwood Safe Company, which began manufacturing at Shrewsbury in 1926 and now survives as Stadco Security, the strong room supplier and builder. Together with Stadco Cooling, which makes industrial cooling systems, this represents only about 5 per cent of the business.

The rest is automotive pressings – steel stampings and sub-assemblies – and automation, specialised equipment for assembling parts of a car body.

And this is where Stadco has been growing. Orders received have jumped from a total of £25m in 1983 and 1984 to £115m in 1991 and 1992. Sales have risen from £11m in 1983 to £45m-£50m in each of the past two years. That compares with Hall's total turnover of £135.7m in 1992.

Stadco's profits hit a peak of £4.86m in 1991, but slipped back last year to £2.94m, a reflection of the difficult conditions in the motor industry.

In spite of the profits downturn, Mr Mace is confident about Stadco's future and its financial health. The company has been regularly generating cash since the mid-1980s, he says, and has sold more abroad than at home in five of the past 10 years.

And, over the past decade, capital employed has only doubled while sales have more than quadrupled – due to tighter management controls and better negotiations on payment terms from customers.

Behind the numbers, however, lies a change in strategy which Mr Mace believes rescued the pressings division from a "slow, painful death." In 1986 and 1987, the division was at the peak of its profitability, making large pressings for the automotive industry.

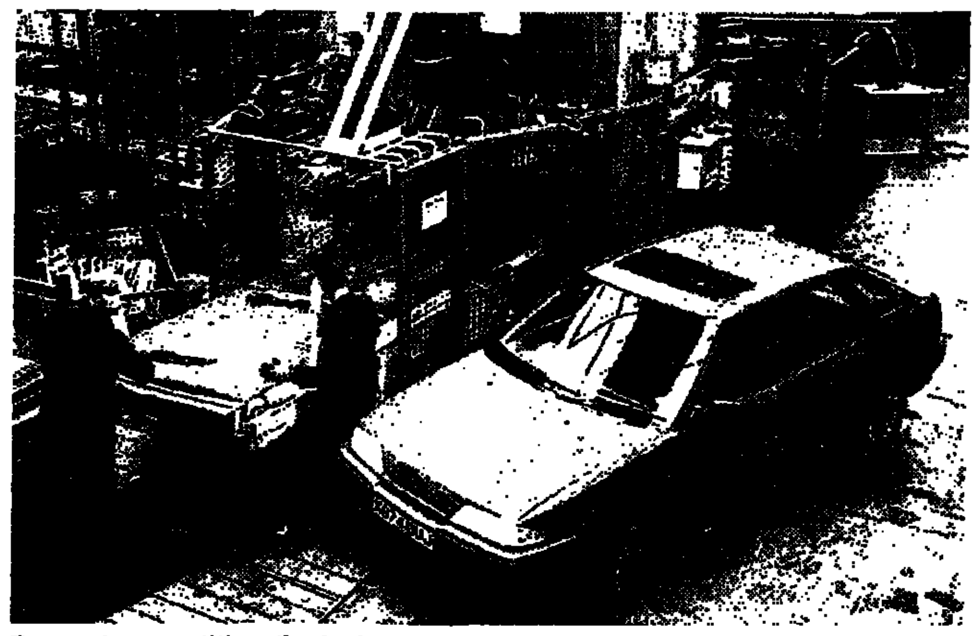
But Stadco anticipated that customers would increasingly want to retain their large pressings in-house – to keep body-skin information private as long as possible, and to save on damage and transportation costs.

The pressings business needed, therefore, to move into the market for smaller, higher value-added, sub-assemblies, which vehicle makers increasingly want to outsource. An example is a centre pillar assembly – "not exactly a glamour item, but there is quite a lot of assembly involved," says Mr Mace.

The change of tack has proved correct, he says. "Had we not moved out of simple, large pressings, we would not now be in business".

The automation division, meanwhile, is responding to the growth in its business and to the increasing size of individual contracts. The division's final assembly manufacturing space is being doubled to 40,000 sq ft.

At the same time, the division is trying to encourage vehicle makers to leave it more of the detail of an assembly line design and take it into their confidence earlier through a process of simultaneous engineering. The aim is to reduce costs and cut lead times while minimising the risk of losing business if a contract is put out to bidding in the traditional way.



To remain competitive, the business had to move into the market for smaller, higher sub-assemblies and incorporate lean manufacturing techniques to meet customers' demands.

Mr Mace has recently been looking at automation and pressings companies in France and Germany with a view to possible acquisition or joint venture. Working together could win business that would otherwise not have been available, he says.

But Stadco remains heavily dependent on the automotive industry. "We're exposed both to the production side and to the capital expenditure side," says Mr Mace.

Consequently, he is on the look-out for a "third leg" for Stadco – either in a different part of the automotive industry or, preferably, a non-automotive business in a technology that Stadco understands. "I'd feel more comfortable then," he admits.

NEWS DIGEST

Amberley upturn in second half

AMBERLEY, the USM-traded building preservation business with operations in France and Belgium, finished the year to March 31 with a pre-tax loss of £91,000, against a £73,000 profit.

There was, however, a significant upturn in the second half, said Mr James Leek, chairman. An operating profit of £48,000 was recorded prior to exceptional costs of £60,000 relating to the resignation of Mr Dennis Buckley, the former chairman.

In March, Mr Buckley and Mr Mark Pye, then managing director, sold the majority of their shares to Mr Robert Healy and Mr Brian Meddings, who became chief executive and finance director respectively.

Mr Pye remains as managing director of the French and Belgian operations. Mr Leek became chairman in April; the same month Peter Cox placed its holding of 29.99 per cent of Amberley with institutions and with Mr Leek and his family.

Turnover was £3.82m (£3.18m). Losses per share were 1.71p (earnings 0.46p) but the dividend is again 1p.

Fletcher King

Fletcher King, the commercial estate agent and construction management group, reported virtually static profits in the 12 months to April 30.

Mr David Fletcher, chairman, said the outcome – profits amounted to £224,000 (£228,000) on turnover of £4.97m (£5.42m) – was "particularly satisfying" against the poor property market and in a year in which capital and rental values fell significantly.

Earnings per share emerged at 1.6p (1.7p); the proposed final dividend is again 0.5p maintaining the total for the year at 1p.

Amersham Intl

Amersham International, the health science group, has received US marketing approval for Metastron, its injectable radiopharmaceutical, from the Food and Drug Administration.

Earlier this year, Amersham joined with Zeneca to co-promote the drug, which helps control pain of secondary cancer that has spread to the bone.

Siam Selective

Interest charges up from £54,487 to £351,413 left Siam Selective Growth Trust with an after-tax loss of £201,117 for the year ended March 31, against £23,259 previously. Gross revenue rose from £536,622 to £697,442.

After tax of £83,435 (£56,939), deficit per share grew from 0.16p to 1.34p. The dividend, however, is lifted from 0.25p to 1p.

Ladbroke

Ladbroke Group announced a basis price of 175.75p per share for new shares to be issued to shareholders who elected for the enhanced share alternative to the 1992 final dividend.

At this price, a total of 53.23m new shares will be allotted under the enhanced alternative, with 12.42m of those shares being purchased by SG Warburg Securities and Smith New Court Securities under their cash offer – as subsequently increased by Swiss Bank Corporation.

Dealings in the new shares are expected to commence on June 25.

Dartmoor Inv Tst

Dartmoor Investment Trust reported net assets per share down at 79.33p at April 30, compared with 90.12p a year earlier. The fall followed a £8.05m rights issue during the period.

Net revenue for the year to the end of April came out higher at £2.84m (£2.3m) for earnings per share of 12.09p (11.5p).

A fourth interim of 3.9p (3.8p) makes a total for the year of 11.6p (11.2p) as stated in the rights prospectus.

BSN

BSN, the French food group whose interests cover goods from champagne to biscuits, is accelerating its ambitions along more esoteric lines.

It is taking a 40 per cent stake in BEI Foods, a London-based group which imports and processes Indian and Chinese foods. Its own brands include Lotus and Rajah; it is also the UK distributor of the Amoy brand, acquired by BSN in 1991.

BEI – the acronym stands for Bombay Emporium International – achieved turnover of £47m in 1992-93.

Polar

Polar, the designer and distributor of electronic components, increased pre-tax profit from £451,000 to £490,000 in the six months ended April 2.

Turnover amounted to £9.57m against £8.29m. Interest charges came to £43,000 (£25,000).

Earnings per share were 4.1p (3.7p) and the interim dividend is again 2p.

Bula Resources

Bula Resources, the Irish exploration company, turned in a substantially higher loss of I£2.57m (£2.5m) in 1992, compared with I£201,000.

Some I£2.3m of that was attributable to exceptional costs.

Turnover fell to I£1.58m (I£2.2m) following a fall in US oil production.

However, costs of sales were also reduced, from I£1.73m to I£1.37m. Losses per share worked through at 0.48p (0.04p).

Sidlaw

Sidlaw Group, the oil services, packaging and textiles concern, is paying £3.7m to acquire Deeside Packaging (Stonehaven) and Shield Packaging.

Deeside and Shield are established manufacturers of flexible packaging for a range of consumer product markets, most notably bread, frozen and processed foods and soft tissue products.

Consideration for Deeside, a privately-owned company based near Aberdeen, amounts to £1.7m, of which £610,000 has been paid in cash and the rest satisfied by the issue of variable rate unsecured loan stock 1994-2000.

The £2m price for Shield, located in Washington, near Newcastle, has been paid in cash.

No probes

The proposed acquisition by MD Foods of certain assets of Dairy Crest and the acquisition by Northern Independent Hospitals of all the shares it does not already own in North West Independent Hospitals are not being referred to the Monopolies and Mergers Commission.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Monday, June 21, 1993. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

COUNTRY		£ STG	US $	D-MARK	YEN (X 100)
[illegible]					
		1640.23m	1102.68	652.826	992.575
Comoros	(CFA Fr)	422.125	283.782	168.01	255.446
Congo (Brazz)	(CFA Fr)	422.125	283.782	168.01	255.446
Costa Rica	(Colon)	207.40	139.429	82.5472	125.507
Côte d'Ivoire	(CFA Fr)	422.125	283.782	168.01	255.446
Croatia	(Dinar)	4363.15	2933.21	1736.58	2640.33
Cuba	(Cuban Peso)	1.1220	0.7542	0.4465	0.6789
Cyprus	(Cyprus £)	0.7325	0.4924	0.2915	0.4432
Czech Rep.	(Koruna)	43.866c	29.4887	17.4591	26.5452
		42.45f	28.5378	16.8955	25.6883
Denmark	(Danish Kroner)	9.6125	6.4621	3.8258	5.8169
Djibouti Rep	(Djib Fr)	260.75	175.294	103.781	157.791
Dominica	(E Carrib $)	4.00	2.689	1.592	2.4205
Dominican Rep	(D Peso)	19.2585	12.9475	7.6654	11.6547
Ecuador	(Sucre)	2740.75o	1842.52	1090.85	1658.55
		2827.45a	1900.81	1125.35	1711.01
Egypt	(Egyptian £)	4.97	3.3411	1.9781	3.0075
El Salvador	(Colon)	12.9930	8.7347	5.1713	7.8626
Equat'l Guinea	(CFA Fr)	422.125	283.782	168.01	255.446
Estonia	(Kroon)	19.7140	13.2531	7.8463	11.9298
Ethiopia	(Ethiopian Birr)	7.3305	4.928	2.9176	4.436
Falkland Is	(Falk £)	1.00	0.6722	0.398	0.6051
Faroe Is	(Danish Kroner)	9.6125	6.4621	3.8258	5.8169
Fiji Is	(Fiji $)	2.2740	1.5287	0.905	1.376
Finland	(Markka)	8.39575	5.6441	3.3415	5.0806
France	(Fr)	8.4425	5.6756	3.3601	5.1089
Fr. Cty/Africa	(CFA Fr)	422.125	283.782	168.01	255.446
Fr. Guiana	(Local Fr)	8.4425	5.6756	3.3601	5.1089
Fr. Pacific Is	(CFP Fr)	151.25	101.681	60.199	91.5279
Gabon	(CFA Fr)	422.125	283.782	168.01	255.446
[illegible]					
Luxembourg	(Lux Fr)	51.65	34.7226	20.5672	31.2558
Macao	(Pataca)	11.8385	7.9586	4.7118	7.1639
Madagascar	(MG Fr)	2814.85	1892.34	1120.34	1703.39
Madeira	(Port Escudo)	238.45	160.303	94.9054	144.297
Malawi	(Kwacha)	6.4705	4.3499	2.5753	3.9155
Malaysia	(Ringgit)	3.8480	2.5868	1.5315	2.3285
Maldive Is	(Rufiya)	17.7410	11.9267	7.061	10.7358
Mali Rep	(CFA Fr)	422.125	283.782	168.01	255.448
Malta	(Maltese Lira)	0.5620	0.3778	0.2236	0.34
Martinique	(Local Fr)	8.4425	5.6756	3.3601	5.1089
Mauritania	(Ouguiya)	168.60	113.345	67.1044	102.027
Mauritius	(Maur Rupee)	25.6560	17.2477	10.2113	15.5255
Mexico	(Mexican Peso)	4.6275	3.1109	1.8417	2.8003
Miquelon	(Local Fr)	8.4425	5.6756	3.3601	5.1089
Monaco	(French Fr)	8.4425	5.6756	3.3601	5.1089
Mongolia	(Tugrik)	592.60	398.387	235.861	358.608
Montserrat	(E Carr $)	4.00	2.689	1.592	2.4205
Morocco	(Dirham)	13.2720	8.9223	5.2823	8.0314
Mozambique	(Metical)	5128.45	3447.7	2041.17	3103.45
Namibia	(S A Rand)	4.8825	3.2823	1.9432	2.9546
Nauru Is	(Australian $)	2.1785	1.4645	0.867	1.3183
Nepal	(Nepalese Rupee)	69.0545	46.4231	27.4843	41.7878
Netherlands	(Guilder)	2.8175	1.8941	1.1213	1.7049
N'nd Antilles	(A/Guilder)	2.6520	1.7828	1.0555	1.6048
New Zealand	(NZ $)	2.7390	1.8413	1.0901	1.6574
Nicaragua	(Gold Cordoba)	9.0790	6.1035	3.6135	5.494
Niger Rep	(CFA Fr)	422.125	283.782	168.01	255.446
Nigeria	(Naira)	41.4820	27.887	16.5102	25.1025
Norway	(Nor. Krone)	10.5975	7.1243	4.2179	6.413
Oman	(Rial Omani)	0.5705	0.3835	0.227	0.3452
[illegible]					
Sweden	(Krona)	11.2375	7.5546	4.4726	6.8003
Switzerland	(Fr)	2.2350	1.5025	0.8895	1.3524
Syria	(£)	31.8525	21.4134	12.6776	19.2753
Taiwan	($)	38.475	25.8655	15.3134	23.2829
Tanzania	(Shilling)	562.95	378.454	224.06	340.666
Thailand	(Baht)	39.80	26.7563	15.8407	24.0847
Togo Rep	(CFA Fr)	422.125	283.782	168.01	255.446
Tonga Is	(Pa Anga)	2.1785	1.4645	0.867	1.3183
Trinidad/Tobago	($)	8.0740	5.4278	3.2135	4.8859
Tunisia	(Dinar)	1.5155	1.0188	0.6031	0.917
Turkey	(Lira)	15926.50	10706.9	6338.91	9637.82
Turks & Caicos	(US $)	1.4875	1	0.592	0.9001
Tuvalu	(Australian $)	2.1785	1.4645	0.867	1.3183
Uganda	(New Shilling)	1774.75	1193.11	706.368	1073.98
U A E	(Dirham)	5.4585	3.6695	2.1725	3.3031
United Kingdom	(£)	1.00	0.6722	0.398	0.6051
United States	(US $)	1.4875	1	0.592	0.9001
Uruguay	(Peso Uruguayo)	5.7780	3.8843	2.2997	3.4965
Vanuatu	(Vatu)	180.00	121.008	71.6417	108.926
Vatican	(Lira)	2275.25	1529.58	905.572	1376.85
Venezuela	(Bolivar)	132.60	89.1428	52.7761	80.242
Vietnam	(Dong)	15659.45	10527.4	6232.62	9476.22
Virgin Is-British	(US $)	1.4875	1	0.592	0.9001
Virgin Is-US	(US $)	1.4875	1	0.592	0.9001
Western Samoa	(Tala)	3.79	2.5478	1.5084	2.2934
Yemen (Rep of)	(Rial)	24.4450	16.4335	9.7293	14.7927
Yemen (Rep of)	(Dinar)	0.6680	0.449	0.2658	0.4042
Yugoslavia	(New Dinar)	1629550.0(1)	1095563	648617	986172
Zaire Rep	(Zaire)	4308000.0	2896134	1714627	2606959
Zambia	(Kwacha)	814.80	547.765	324.299	493.071
Zimbabwe	($)	9.7210	6.5351	3.869	5.8826

Special Drawing Rights June 18, 1993 United Kingdom £0.931234 United States $1.40486 Germany D Mark 2.34050 Japan Yen150.882
European Currency Unit Rates June 21, 1993 United Kingdom £0.781532 United States $1.15840 Germany D Mark 1.95939 Japan Yen129.331

Abbreviations: (a) Free rate; (b) Banknote rate; (c) Commercial rate ; (d) Controlled rate; (e) Essential imports; (g) Financial rate; (h) Exports; (i) Non commercial rate; (j) Business rate; (k) Buying rate; (l) Luxury goods; (m) Market rate; (n) Public transaction rate; (o) Official rate; (p) preferential rate; (q) convertible rate; (r) parallel rate; (s) Selling rate; (t) Tourist rate [illegible]

Monday, June 21, 1993

European zinc producers plan co-ordinated cuts

By Kenneth Gooding, Mining Correspondent

DESPERATE EUROPEAN zinc producers are hoping to implement a co-ordinated industry scheme where one or two of them will permanently close smelting capacity and the rest of the EC industry will provide cash to cover the closure costs.

At present 18 European zinc smelters, one third of the world total, chase the same raw materials and the same customers. Analysts have been suggesting for months that the long-term outlook for them is grim and that some will have to close.

The industry apparently agrees with this prognosis and a dossier about the so-called voluntary closure scheme is being prepared for the European Commission, which must give its approval. The commission is expected to give the go-ahead because it approved a similar scheme for the European zinc industry in the early 1980s. There were long discussions then, and also in the mid-1980s, during which potential closure candidates were identified by the industry. But market conditions improved and the scheme was quietly allowed to lapse.

Industry executives said yesterday that a dossier for the commission should be ready as soon as the European summer holidays were over. There would then be industry discussions about which smelters should close and how much per tonne of annual output the rest of the industry should pay if they did shut down. In the 1980s smelters in Germany, southern Italy, Spain and the UK were on the short list for closure.

Zinc's anti-corrosion properties are used mainly for galvanised steel for the automotive and construction industries. Pressure is building up on producers because prices are near their all-time lows and demand is weak, particularly in Europe where recession in Germany is biting hard.

One observer made it clear, however, that the industry was not unanimous. "Is this the right way to stimulate rationalisation of the European industry? Would not that rationalisation happen anyway?" he asked.

Mr David Humphreys, economist at the RTZ Corporation, the world's biggest mining group, said recently that European zinc smelters, which mainly buy in their raw materials and have no associated mines of their own, would suffer because of both the quantity and the quality of zinc concentrate (an intermediate material) likely to be available in the second half of the 1990s.

He said there were already indications that a combination of very low prices for zinc metal and very high treatment charges for concentrates would lead to cuts in mine production and investment so severe as to leave the market short of concentrates in the latter part of the decade.

A number of mines would be exhausted in the 1990s and there was only one large-scale zinc mining project at present fully committed; MIM's $300m McArthur River project in the Northern Territory of Australia.

As for the quality of the concentrate, Mr Humphreys pointed out that two of the three new smelters being planned would use the so-called Imperial Smelting Process and a substantial part of the proposed increase in mine capacity was for bulk (mixed lead-zinc) concentrates usable only at ISP plants. Potentially this added to pressures on non-integrated electrolytic zinc plants which required clean zinc concentrates. "This, together with falling domestic mine production, would point to further problems for Europe's custom smelters."

Mr Humphreys added: "More zinc smelter production cuts are urgently needed. Exchange rates and the condition of the domestic market suggest that cuts will need to be in Europe".

The Metals & Minerals Research Services consultancy group was also pessimistic about the zinc industry's future in a recent report – "Zinc's structural surplus: Temporary or long-term blight?" It suggested production capacity would remain well above demand until at least the end of 1996 and that zinc prices would be weak compared with those of the medium-term past – even when present huge stocks of concentrate and metal had been substantially reduced.

Giving African farm aid a feminine touch

In Tanzania the women till the soil while the men concentrate on weightier matters

FARMER'S VIEWPOINT

By David Richardson

MAMA FLORA Yrafay is one of the leaders of her community. She lives in a mud hut in the village of Dareda in the district of Babati in Tanzania. Her age, I estimate, is about 25 and she has five children under seven years of age.

The aid worker who introduced this lady to me last week described her as a "mover and shaker" and influential in persuading her neighbours to adopt new farming ideas. For women, I was told, were the real farmers in this part of Africa. The men tend to sit around most of the time discussing great issues and drinking locally distilled gin. Their wives till the soil, plant and harvest the crops and milk the goats, as well as cooking meals and rearing a large brood of children.

That is why Farm Africa, a British-based charity is targeting women in this densely populated area. If they can persuade them to adopt more efficient methods of food production, the charity reasons, their activities will have the greatest overall effect on the well-being of children and the whole community.

The methods used by Farm Africa are basic. Firstly it tries to establish what the women themselves need, which sounds obvious but is radically different from the approach of some other aid agencies. Many major charities have the reputation of imposing on poor communities massive "improvement" schemes that may be alien to local culture and therefore destined for failure. Farm Africa starts at grassroots.

In Dareda it has been established that the small herds of goats owned by most families are not only grossly inefficient for both milk and meat production but, as they roam the village, usually tended by children, are also denuding the area of vegetation and trees. Goats are widely recognised as destructive animals because of their indiscriminate grazing habits.

Farm Africa is therefore recommending to the women that they erect small huts for their goats and keep them confined all the time. The feed is then cut and carried to them by a system called, in more advanced agricultural societies, zero grazing.

The paradox is that animal welfarists in the west condemn such systems for limiting the movement of the animals. In Tanzania, however, the priorities are different and damage to the environment leading to lack of food for the future together with associated erosion of the soil are seen as the most important considerations.

Alongside this changed system of goat keeping Farm Africa has introduced British-bred female goats which give five to six pints of milk a day, three to four times as much as the native nannies. This is a quantum leap in production and although the number of British Toggenburgs in Dareda is so far only about 30 females and one male the effect on those who have them has been dramatic.

Children are better nourished by the larger quantities of rich milk and the superior goats give the families a feeling of greater wealth. But Farm Africa is anxious to spread these benefits as widely as possible and insist that after one lactation each Toggenburg female is passed on to another family leaving the first owner with the young goat it has just produced.

In addition the billy goat is made available for a fee of about £2 to mate with the local village females. A service fee for goats was unheard of until Farm Africa arrived but such is the perceived improvement in potential production from the cross breeding that the billy is kept very busy.

The initiative also advocates a programme of tree planting and has developed a simple but more efficient stove for cooking. In the past this has been done on open fires, which burn a great deal of wood. This too has led to the cutting of large areas of trees and there has previously been little attempt to replant. All over Tanzania the heavy downfalls of the rainy season has gouged great channels through the unprotected red soils and washed the aluvium down the rivers.

So the combination of the fuel-efficient clay stoves, moulded and made by women like Mama Flora Yrafay and sold to others for a little over £1 each and the tree planting programme will in time help to control the erosion.

Another aspect of Farm Africa's initiative is to encourage farmers, in other words the women of the community, to use oxen to relieve some of their burdens. At present most land work and water carrying is done by hand or head and on foot. Tractors are far too expensive and hi-tech, so oxen are the appropriate compromise.

Groups of co-operating women are being encouraged to take out interest-free loans from Farm Africa with which to purchase two or four oxen together with basic equipment like a plough, a weeder and a cart.

All these improvements are also being disseminated through the local government-employed extension service – one man who, lacking any other means of transport, has to walk from farm to farm over a vast area – and through the schools.

As would be expected in a country where it is normal for families to have between five and ten children the schools are teeming with pupils. But they too have few resources and it is not unusual to find a ratio of one teacher to 90 or a 100 children.

The schools do, however, usually have a few acres of land – as food production is the most crucial subject children can study. Time spent at this level, says Farm Africa, is a vital investment in the future.

But the scale of the problem of rural poverty in Tanzania is immense. Of its 23m people it is estimated that 90 per cent are involved in agriculture – usually at subsistence level or worse. The population of the country is increasing at about 3 per cent each year and 50 per cent of Tanzanians are under 14 years of age.

The socialist government, which has owned all the land since nationalisation in 1974 but is just beginning a modest programme of privatisation, claims there is plenty of land for the next generation. But there certainly is not enough in districts such as Babati and villages like Dareda.

Each family has just 2 acres allocated by the government and to split these tiny holdings among the next generation would make subsistence for a family impossible. The answer, says the Tanzanian government, is to relocate to other areas of the country where the population is less dense.

But the reasons so many are concentrated around Dareda is because it is a good farming area with relatively reliable rainfall. Conversely, the reason other areas are under-populated is because the land is poor and the rain unreliable.

Clearly population control is an urgent priority. But the culture of the people is such that large families are seen as security for old age and there appears little inclination to tackle such a delicate subject.

My farmers' assessment of the food supply situation in Tanzania is that it is a disaster waiting to happen. Poverty breeds population and wealth is denied to all but those who exploit the system. Corruption is admitted to be rife at all levels of government and business.

Given the size of the problem Farm Africa's efforts seem puny. But at least it is starting at the right level and the tiny area in which it operates is already beginning to benefit from its efforts.

Polish copper combine lifts output

By Christopher Bobinski in Warsaw

POLAND'S KGHM state-owned copper producer has reported a Zl 1,413bn (US$91m) net profit for 1992 as output in the first five months of this year is running 3.4 per cent higher than in the same period last year.

The combine's final results yesterday put KGHM's sales in 1992 at Zl 17,361bn while costs reached Zl 13,639bn. Last year the combine, sited in western Poland, produced 387,000 tonnes of copper and 914 tonnes of silver.

The first five months of this year have seen copper output reach 171,000 tonnes, 3.4 per cent more than last year, when it rose by 2.3 per cent despite a six week strike. In 1991, KGHM, where the trade unions are resisting an attempt to sell a minority stake to foreign investors, reported a Zl 900bn net profit, equivalent US$82m at the present exchange rates.

Pressure builds up in aluminium market

By Kenneth Gooding

IT IS ONLY a matter of time before the aluminium market succumbs to renewed downward pressure on prices, suggests Billiton-Enthoven Metals, part of the Royal Dutch/Shell group.

"Demand remains poor, stocks continue to accumulate and still producers are demonstrating a strong reluctance to respond to calls for further hefty cuts in production," says Mr Angus MacMillan, Billiton's research manager.

Outlining in Billiton's latest weekly Metals Report those aluminium production cuts already announced, Mr MacMillan points out that the only recent addition to the total has been the closure of a second 45,000-tonnes-a-year pot line at Alusuisse's smelter in Germany. This follows the closure of a first pot line in March of last year.

On the other hand, Columbia Aluminium in the US has restarted 17,000 tonnes of annual capacity at its Goldendale smelter, citing cash flow problems, and Spain's Inespal, after long talks with the government, decided not to cut production or close either its Aviles or La Coruna smelters. Such moves could have resulted in the loss of about 73,000 tonnes of capacity. Instead it is to cut its workforce by about one third between 1994 and 1997.

Delegates optimistic on timber pact

By Frances Williams in Geneva

NEGOTIATIONS ON a new International Tropical Timber Agreement resumed in Geneva yesterday, with both producing and consuming countries expressing optimism for progress in the week-long talks.

The first session of talks in April ended in stalemate over producer demands for temperate and boreal, as well as tropical timber, to be included in the new agreement. Producing countries, the biggest being Malaysia, Indonesia, Ivory Coast, Papua New Guinea and Brazil, say the present accord is discriminatory.

The 1983 International Tropical Timber Agreement, which came into force in 1985 and expires in March next year, aims to balance economic use of tropical timber with environmental needs through co-operation, consultation and research. It has no price-setting mechanisms.

Consumers have pressed for stronger environmental provisions, including a clear commitment to ensuring that by the year 2000 all tropical timber exports come from sustainably managed forests. Producers do not want this target to be legally binding and say similar commitments should be imposed on all internationally traded timber.

Consumer countries continue to oppose the inclusion of temperate and boreal timber in any agreement.

At a meeting of the International Tropical Timber Council in Kuala Lumpur last month, however, they proposed three points for discussion in Geneva which they hope will allay producer concerns.

In particular, consumers have suggested language in the new agreement that would bar discrimination against exports of tropical timber as such and ensure the accord could not be used to justify trade curbs.

Consumers have also offered to examine a shift to sustainable forest management for temperate timber and increased funds for projects in tropical producing countries to promote sustainable management and increased market transparency.

The negotiations, sponsored by the United Nations Conference on Trade and Development, involve some 50 countries accounting for virtually the whole $7.5bn a year trade in tropical timber. Unctad officials say that a final deal is unlikely this time.

Bad weather may reduce Russian grain harvest

RUSSIA'S 1993 grain harvest may fall below last year's because bad weather delayed spring sowing in some regions, government officials said, reports Reuter from Moscow.

"The sowing is almost finished. But in some regions in Siberia and eastern Russia it is behind schedule because of rains and cold weather," said Mr Vladimir Kotov, aide to Mr Vladimir Shcherbak, the first deputy agriculture minister.

"Due to bad weather, it's possible that the grain harvest in 1993 may be slightly below 1992 levels," he said. "Early autumn rains may cause damage in some areas but it's too early to say."

Russia harvested 106.8m tonnes of grain in 1992, when imports were 26m tonnes. Imports in 1993 were forecast sharply lower at 16m tonnes by Mr Alexander Zaveryukha, deputy prime minister in charge of agriculture, last week.

Mr Kotov said it was too early to forecast this year's yield. There was an acute shortage of fertilisers, he added, but Russia had enough diesel and aviation fuel for crop-spraying aircraft.

Mr Kotov dismissed reports that up to five million hectares of farmland could be damaged by the worst locust invasion in five decades. "Locusts are not a threat this year," he said. "We are not concerned."

He estimated the winter grain harvest this year at about 40m tonnes, compared with 42.1m tonnes in 1992.

WORLD COMMODITIES PRICES

MARKET REPORT

London **COCOA** prices continued last week's rally as the September contract climbed towards £750 a tonne. New York's higher opening provoked a spurt of buying interest in London in the afternoon, but traders attribute the recent break-out mainly to technical factors. London robusta **COFFEE** prices lost further ground in the afternoon as the market drifted back in line with New York. Earlier hopes that prices might attempt to edge higher faded quickly as New York opened lower. Both markets continued to disregard talk of retention schemes among Latin American producers. "How many times have we heard this before? Anything that starts from outside an international coffee agreement never takes off," one trader said. On the LME three-month **COPPER** was unable to hold above $1,900 a tonne after advancing in early trading. But dealers said a further attempt is likely today. Three-month **ALUMINIUM** was unable to reach the $1,215 a tonne target, easing from its highs on the kerb with copper, but remaining technically constructive. **GOLD** futures were trading near session lows at midday on Comex.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)(Jul)		+ or -
Dubai	$15.38-5.40z	+0.12
Brent Blend (dated)	$17.19-7.21	+0.10
Brent Blend (Aug)	$17.55-7.57	+0.11
W.T.I (1 pm est)	$18.97-8.99z	+0.105
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$200-202	-1
Gas Oil	$164-165	+0.5
Heavy Fuel Oil	$58-60	
Naphtha	$172-174	
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$369.50	-2.75
Silver (per troy oz)♣	429.5c	-10.0
Platinum (per troy oz)	$378.35	-0.65
Palladium (per troy oz)	$128.0	+0.10
Copper (US Producer)	89.0	+0.5
Lead (US Producer)	34.63c	
Tin (Kuala Lumpur market)	12.93r	
Tin (New York)	239.5c	
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	141.39p	-2.51*
Sheep (live weight)†♣	115.15p	+4.31*
Pigs (live weight)†	88.10p	+0.71*
London daily sugar (raw)	$267.8	-9.7
London daily sugar (white)	$276.8	-3.2
Tate and Lyle export price	£292.5	-3.5
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	£168.5t	
Wheat (US Dark Northern)	£141.0t	-0.5
Rubber (Jul)♥	58.50p	
Rubber (Aug)♥	58.75p	
Rubber (KL RSS No 1 Jul)	207.5m	-1.0
Coconut oil (Philippines)§	$427.5v	+2.5
Palm Oil (Malaysian)§	$355.0y	+2.5
Copra (Philippines)§	$280.0	+2.0
Soyabeans (US)	£184.0u	+3.5
Cotton "A" index	58.15c	-0.10
Wooltops (64s Super)	362p	+5

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. y-Jul/Sep. z-Aug. v-Jul/Aug u-Jul t-Jun ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg. ♣Sheep prices are now live weight prices * change from a week ago, provisional prices.

SUGAR – London FOX ($ per tonne)

White	Close	Previous	High/Low
Aug	275.00	281.60	282.00 275.00
Oct	266.00	275.00	275.00 266.00
Dec	272.50	270.50	274.00 272.50
Mar	267.00	276.00	275.20 267.00
May	276.50	278.50	276.50
Oct	273.00		274.50 273.00

White 1261 (2128) Paris- White (FFr per tonne): Aug 1565.44 Oct 1561.37

CRUDE OIL – IPE $/barrel

	Latest	Previous	High/Low
Aug	17.53	17.56	17.69 17.50
Sep	17.73	17.78	17.88 17.73
Oct	18.06	17.97	18.06 17.97
Nov	18.14	18.07	18.14 18.11
IPE Index	17.52	17.63	17.52 17.52

Turnover 13958 (25248)

GAS OIL – IPE $/tonne

	Close	Previous	High/Low
Jul	163.25	163.00	164.25 163.00
Aug	165.50	165.25	166.00 165.25
Sep	167.50	167.25	168.25 167.50
Oct	171.25	171.00	171.50 171.00
Nov	173.25	173.50	174.00 173.25
Dec	176.00	175.75	176.25 175.75
Jan	177.25	177.25	177.25

Turnover 7810 (9594) lots of 100 tonnes

TEA

Landed good general demand,report the Tea Brokers' Association. Better liquoring East African teas remained fully firm. Mediums were well supported but prices tended easier. Plainer descriptions met less enquiry at easier rates. Offshore fair demand with Ceylons a good feature. Brightest teas were dearer: others barely steady. Quotations quality 150p nom, good medium 135p, medium 100p,low medium 82p.The highest price realised this week was 150p for a Rwanda pf.1.

COCOA – London FOX £/tonne

	Close	Previous	High/Low
Jul	717	706	721 704
Sep	725	715	730 715
Dec	730	738	739 725
Mar	741	744	750 735
May	754	756	762 753
Jul	768	768	775 767
Sep	780	782	786 780
Dec	798	798	813 798
Mar	819	819	826 817
May	833		846 835

Turnover: 9724 (15566) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jun 18 724.73 (715.87) 10 day average for Jun 21 688.90 (683.89)

COFFEE – London FOX $/tonne

	Close	Previous	High/Low
Jul	899	912	910 898
Sep	917	930	928 915
Nov	921	932	929 920
Jan	922	934	934 920

Turnover: 1784 (3160) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Jun 18 Comp. daily 55.69 (55.65) 15 day average 54.41 (54.41)

POTATOES – London FOX £/tonne

	Close	Previous	High/Low
Apr	85.5	89.7	89.0 84.0

Turnover 178 (77) lots of 20 tonnes.

SOYAMEAL – London FOX £/tonne

	Close	Previous	High/Low
Oct	152.00	150.50	
Dec	154.00	153.00	

Turnover - (20) lots of 20 tonnes.

FREIGHT – London FOX $10/index point

	Close	Previous	High/Low
Jun	1490	1483	1490 1485
Jul	1370	1353	1370 1365
Aug	1365	1338	1365 1355
Oct	1425	1416	1425
Jan	1451		1451 1450
BFI	1518	1522	1518

Turnover 317 (90)

GRAINS – London FOX £/tonne

Wheat	Close	Previous	High/Low
Jun	133.75	134.50	134.50
Nov	108.25	108.15	108.35 108.25
Jan	111.30	111.10	111.30
Mar	113.25	113.15	113.35
Barley	**Close**	**Previous**	**High/Low**
Nov	107.50	107.40	107.50

Turnover: Wheat 53 (52), Barley 9 (44).
Turnover lots of 100 Tonnes.

PIGS – London FOX (Cash Settlement) p/kg

	Close	Previous	High/Low
Mar	105.0	105.3	104.0

Turnover:2 (141)lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 44,563 lots
Cash	1184.5-5.5	1181.5-2.5	1182	1182-2.5		
3 months	1208-9	1204.5-5.0	1214/1203	1204.5-5.0	1205-6	199,542 lots
Copper, Grade A (£ per tonne)						Total daily turnover 59,990 lots
Cash	1259-60	1237-8	1276	1275.5-6.0		
3 months	1273-3.5	1248-6.5	1289.5/1273	1257.5-8.0	1274-5	216,571 lots
Lead (£ per tonne)						Total daily turnover 1,114 lots
Cash	264-5	263.5-4.5	265	265-5.25		
3 months	273.5-4.5	273-4	275.5/273.5	274.5-4.75	273-3.5	20,682 lots
Nickel ($ per tonne)						Total daily turnover 5482 lots
Cash	5590-5600	5555-65		5575-85		
3 months	5655-60	5620-30	5680/5640	5640-45	5650-60	50,692 lots
Tin ($ per tonne)						Total daily turnover 2,074 lots
Cash	5128-38	5175-85		5160-70		
3 months	5185-90	5235-45	5270/5180	5225-30	5175-80	9,991 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 12,292 lots
Cash	942-3	931-2	938	938-8.5		
3 months	960-1	949-50	963/956	957-7.5	958-6	69,952 lots

LME Closing £/$ rate:
SPOT: 1.4960 3 months: 1.4884 6 months: 1.3180 9 months: 1.4718

LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (troy oz)	$ price	£ equivalent
Close	369.25-369.75	
Opening	369.75-370.25	
Morning fix	369.55	249.241
Afternoon fix	370.55	249.394
Day's high	371.30-371.70	
Day's low	369.00-369.50	

Loco Ldn Mean Gold Lending Rates (Vs US$)			
1 month	2.39	6 months	2.45
2 months	2.40	12 months	2.50
3 months	2.42		

Silver fix	p/troy oz	US cts equiv
Spot	288.40	429.00
3 months	293.50	432.30
6 months	297.40	435.75
12 months	305.30	443.55

GOLD COINS

	$ price	£ equivalent
Krugerrand	369.00-372.00	248.00-251.00
Maple leaf	380.15-382.55	
New Sovereign	87.00-90.00	58.00-61.00

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Aug	Oct	Aug	Oct
1175	43	65	20	27
1200	30	51	31	38
1225	19	39	48	51
Copper (Grade A)	**Calls**		**Puts**	
1800	101	129	26	51
1850	70	100	44	72
1900	46	77	70	97
Coffee	Sep	Nov	Sep	Nov
850	80	97	13	26
900	48	67	31	46
950	27	46	60	75
Cocoa	Sep	Dec	Sep	Dec
700	41	61	18	31
725	27	47	27	42
750	18	37	43	57
Brent Crude	Aug	Dec	Aug	Dec
1800	10	-	45	-
1850	1	-	-	-
1900	-	-	-	-

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Jun	370.0	371.3	371.1	370.3
Jul	370.3	371.7	0	0
Aug	371.1	372.5	372.7	370.0
Oct	372.9	374.3	374.1	372.0
Dec	374.5	375.9	375.9	373.1
Feb	376.1	377.5	377.5	375.4
Apr	377.7	379.1	377.9	377.3
Jun	379.3	380.7	0	0
Aug	381.0	382.4	381.1	381.1

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Jul	376.6	379.8	382.0	378.5
Oct	377.6	379.0	380.5	378.0
Jan	378.1	379.7	380.5	380.5
Apr	378.6	380.2	381.0	381.0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Jun	428.1	428.4	431.0	429.0
Jul	428.5	428.8	433.5	427.0
Aug	430.1	430.4	433.0	433.0
Sep	431.7	432.0	436.5	430.0
Dec	436.4	436.7	441.5	434.5
Jan	437.0	437.3	0	0
Mar	440.9	441.2	445.5	441.0
May	444.3	444.6	0	0
Jul	447.4	447.7	449.0	449.0
Sep	450.8	451.1	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jun	84.20	83.90	84.50	84.10
Jul	84.40	84.05	84.95	83.75
Aug	84.65	84.30	0	0
Sep	84.90	84.55	85.45	84.25
Oct	85.00	84.70	0	0
Nov	85.15	84.85	0	0
Dec	85.30	85.05	85.95	84.65
Jan	85.40	85.20	0	0
Feb	85.55	85.35	0	0
Mar	85.70	85.65	86.80	85.30

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Jul	18.63	18.67	18.91	18.63
Aug	18.92	18.97	19.18	18.92
Sep	19.19	19.24	19.40	19.19
Oct	19.43	19.43	19.57	19.43
Nov	19.55	19.55	19.68	19.54
Dec	19.68	19.65	19.77	19.60
Jan	19.72	19.73	19.84	19.72
Feb	19.80	19.78	19.88	19.80
Mar	19.80	19.81	19.92	19.80
Apr	19.80	19.83	0	0

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Jul	51.55	52.20	52.65	51.95
Aug	52.65	52.93	53.30	52.65
Sep	53.75	53.78	54.25	53.75
Oct	54.90	54.88	55.30	54.90
Nov	56.00	55.95	56.40	56.00
Dec	57.00	56.93	57.40	57.00
Jan	57.60	57.53	57.90	57.60
Feb	57.60	57.40	57.90	57.60
Mar	56.55	56.33	56.75	56.55
Apr	55.50	55.13	55.65	55.50

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Jul	904	907	920	901
Sep	933	928	942	921
Dec	962	960	970	954
Mar	992	995	998	983
May	1015	1018	1016	1008
Jul	1037	1040	1036	1035
Sep	1061	1064	1058	1050
Dec	1092	1095	1090	1080
Mar	1117	1120	1109	1104
May	1142	0	1139	1125

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Jul	60.30	61.45	62.15	60.00
Sep	62.35	63.45	64.00	61.80
Dec	65.05	66.20	66.90	64.70
Mar	67.10	68.65	69.10	67.10
May	68.75	70.35	70.00	69.20
Jul	70.40	72.10	0	0
Sep	72.00	73.50	73.00	73.00

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	9.67	10.05	10.08	9.62
Oct	10.09	10.52	10.56	10.00
Mar	10.01	10.47	10.47	10.00
May	9.98	10.40	10.41	9.96
Jul	9.85	10.23	10.25	9.84
Oct	9.70	10.02	10.25	9.70

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Jul	58.20	58.31	58.60	57.73
Oct	57.50	57.92	58.15	57.30
Dec	56.80	57.32	57.55	56.80
Mar	57.80	58.35	58.25	57.80
May	58.48	58.93	58.90	58.59
Jul	59.23	59.64	59.59	59.30
Oct	59.60	59.72	0	0
Dec	60.20	60.10	60.20	60.00

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	115.20	115.00	116.00	113.70
Sep	118.50	118.35	119.50	117.20
Nov	121.15	121.00	122.00	120.30
Jan	122.80	122.25	123.00	121.00
Mar	123.80	123.25	124.00	123.50
May	124.95	124.95	123.00	123.00
Jul	124.95	124.95	0	0
Sep	124.95	124.95	0	0
Nov	124.95	124.95	0	0

INDICES

REUTERS (Base:September 18 1931 = 100)

Jun.21	Jun.18	mnth ago	yr ago
1674.3	1665.0	1681.4	1597.0

DOW JONES (Base: Dec. 31 1974 = 100)

	Jun.18	Jun.17	mnth ago	yr ago
Spot	121.04	120.17	120.67	119.46
Futures	120.85	121.00	122.98	120.24

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jul	620/4	605/2	626/0	608/0
Aug	621/2	605/4	627.0	608/4
Sep	622/2	605/4	627.0	611/4
Nov	621/4	606/0	627/0	611/0
Jan	626/4	611/6	632/0	617/4
Mar	632/6	617/4	636/0	624/4
May	633/2	620/2	637/0	629/0
Jul	634/0	622/0	638/0	632/4

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Jul	22.12	21.44	22.43	21.65
Aug	22.33	21.56	22.56	21.81
Sep	22.41	21.70	22.70	21.95
Oct	22.55	21.81	22.81	22.20
Dec	22.74	22.02	23.02	22.32
Jan	22.85	22.15	23.10	22.72
Mar	23.07	22.34	23.29	22.62
May	23.30	22.53	23.53	22.85

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Jul	195.0	190.0	195.5	191.5
Aug	194.8	190.1	195.5	191.2
Sep	195.2	190.4	195.8	191.2
Oct	195.3	190.3	196.0	191.5
Dec	196.6	191.7	197.7	192.7
Jan	197.1	191.7	197.2	193.0
Mar	197.1	192.1	198.0	194.5
May	198.2	193.3	198.2	195.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Jul	218/0	218/2	221/6	216/6
Sep	224/2	223/0	229/0	223/2
Dec	233/0	231/6	238/0	231/6
Mar	240/4	239/0	244/2	239/0
May	246/0	243/6	249/4	244/4
Jul	250/0	247/4	252/0	248/4
Sep	246/2	243/4	246/4	245/4
Dec	245/6	244/6	248/0	244/6

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Jul	280/0	278/4	290/0	279/0
Sep	286/4	284/2	295/4	285/0
Dec	298/2	295/6	305/4	298/4
Mar	306/0	302/6	311/0	303/0
May	307/0	302/4	312/0	307/0
Jul	306/6	302/2	307/2	303/4

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jun	76.400	76.725	76.775	76.350
Aug	74.450	74.750	74.775	74.350
Oct	74.675	74.675	74.875	74.575
Dec	75.225	75.125	75.375	75.150
Feb	74.925	74.825	75.075	74.925
Apr	75.900	75.925	76.075	75.900
Jun	72.850	72.800	73.075	72.850

LIVE HOGS 40,000 lb; cents/lbs

	Close	Previous	High/Low	
Jun	52.775	52.250	52.850	52.250
Jul	48.700	48.375	48.850	48.400
Aug	46.125	45.800	46.200	45.800
Oct	40.775	40.875	41.050	40.525
Dec	41.150	41.075	41.425	40.800
Feb	41.300	41.300	41.750	41.300
Apr	40.550	40.500	41.200	40.550
Jun	46.150	46.150	46.500	46.150

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Jul	34.850	34.725	35.600	34.450
Aug	33.875	33.925	34.725	33.450
Feb	39.950	39.850	40.350	39.775
Mar	39.225	39.025	39.500	39.225
May	41.000	41.100	0	41.000
Jul	40.400	40.400	0	0

LONDON STOCK EXCHANGE

FT-SE 100 Index closes above 2,900

By Terry Byland, UK Stock Market Editor

THE UK equity market yesterday regained the Footsie 2,900 territory last seen more than three months ago, helped by strength in dollar earning stocks and a good lead from stock index futures. Base rate hopes remained high following interest rate cuts in Europe and optimism appeared undimmed by unfavourable money supply figures from Germany.

The closing reading on the FT-SE 100 Index of 2,903.4, the best of the day and a net gain of 24 points, was the highest since March 16. The driving force came from the futures market, where the September contract on the Footsie, in its first effective day's trading as market leader, climbed to a premium of 30 points to the underlying cash market.

This sparked successive bursts of basket trading as leading securities houses played between cash and futures – selling futures contracts and buying the blue chip equities.

With a strong US dollar also encouraging buyers across much of the Footsie range, the index soon reversed an early loss and broke through the 2,900 barrier at mid-morning. Equities were also helped by strength in long-dated government bonds.

The market's progress on the first day of the new trading account was by no means unbroken, however, and it took a fresh spur from stock index futures to push the Footsie to the best level. The stress on basket trading left the second line issues relatively neglected, although the FT-SE Mid 250 Index edged up by 2.7 points to a new peak of 3,218.5.

Market strategists pointed to a further set of good economic data on the economy as the UK trade deficit with non-EC countries came out smaller than expected. Even the setbacks in Japanese and US equities failed to upset London; Nick Knight, the ebullient guru at Nomura in London, advised clients to "switch Japan into the UK".

There was no immediate reaction to the latest Gallup survey of UK consumer confidence conducted on behalf of the European Commission, which suggested that optimism over the economy may have "come to an abrupt end".

London market analysts were impressed by the French decision to cut intervention rates "without waiting for a nod from the Bundesbank" and some believed that wide-ranging changes in the ERM were imminent.

But while the non-EC trade figures, together with last week's statistics on UK unemployment and inflation, have strengthened hopes that economic recovery has truly taken hold, some analysts continued to show concern over the high ratings of the UK stock market.

"Equities are still trying to have their cake and eat it," observed Mr Rob Buckland at NatWest Securities.

Seaq volume of 570.4m shares compared with Friday's total of 712.5m, worth £1.43bn in retail activity. Non-Footsie business made up around 63 per cent of yesterday's total, with trading boosted by at least one trading programme in the second half of the session.

Among the features of the day were the final dealings in the rights issue from Zeneca, in a pharmaceuticals sector gaining little benefit from the strength of the dollar. First dealings in Northern Ireland Electricity established the expected premium.

TRADING VOLUME IN MAJOR STOCKS

Stock	Volume 000's	Closing Price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 Index constituent.

FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
2903.4 +24.0	3218.5 +2.7	1431.49 +9.06

	Jun 21	Day's change %	Jun 18	Jun 17	Jun 16	Year ago	Earnings yield %	Dividend yield %	P/E Ratio	Xd adj ytd
FT-SE 100	2903.4	+0.8	2879.4	2875.7	2883.0	2550.3	5.84	3.95	21.31	49.94
FT-SE Mid 250	3218.5	+0.1	3215.8	3213.5	3212.0	2595.9	6.02	3.69	20.86	48.61
FT-SE-A 350	1446.3	+0.7	1436.7	1435.0	1437.7	1247.4	5.88	3.69	21.21	24.20
FT-SE SmallCap	1639.46	+0.1	1637.38	1638.01	1637.78	-	4.38	3.48	31.99	23.11
FT-SE SmallCap ex Inv Trusts	1646.57	+0.2	1643.26	1644.33	1644.70	-	4.83	3.67	29.93	24.27
FT-A ALL-SHARE	1431.49	+0.6	1422.43	1430.90	1423.44	1232.87	5.79	3.67	21.65	23.72
1 CAPITAL GOODS(213)	1008.41	+0.6	1002.17	1000.38	1003.55	840.13	4.40	3.92	30.27	17.50
2 Building Materials(27)	1075.95	-0.5	1081.17	1081.94	1082.38	940.28	3.55	4.38	40.47	19.50
3 Contracting, Construction(29)	951.76	-0.3	955.08	953.78	950.86	860.68	1.46	3.45	80.00†	13.43
4 Electricals(15)	2952.75	+0.4	2941.55	2944.62	2958.40	2551.56	4.96	4.57	25.67	65.13
5 Electronics(37)	2821.17	+0.7	2802.58	2786.90	2792.97	1980.49	5.71	2.95	21.97	22.91
6 Engineering-Aerospace(7)	417.25	-0.5	419.48	416.35	418.18	349.48	‡	3.54	‡	5.23
7 Engineering-General(51)	576.93	+0.4	574.75	572.97	575.50	529.82	6.31	3.65	19.71	9.27
8 Metals & Metal Forming(10)	418.70	-0.2	419.70	428.98	431.79	335.18	3.72	2.93	40.40	3.92
9 Motors(19)	403.78	-0.2	404.57	405.14	409.27	356.90	4.69	5.44	29.92	9.65
10 Other Industrials(18)	2103.08	+2.1	2060.11	2051.81	2060.98	1781.75	5.44	4.27	22.12	50.05
21 CONSUMER GROUP(236)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
22 Brewers and Distillers(30)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25 Food Manufacturing(22)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
26 Food Retailing(18)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
27 Health & Household(30)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
29 Hotels and Leisure(20)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
30 Media(30)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
31 Packaging and Paper(24)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
34 Stores(39)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
35 Textiles(20)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
40 OTHER GROUPS(142)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
41 Business Services(28)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
42 Chemicals(23)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
43 Conglomerates(11)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
44 Transport(13)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
45 Electricity(16)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
46 Telephone Networks(4)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
47 Water(13)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
48 Miscellaneous(32)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
49 INDUSTRIAL GROUP(591)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
51 Oil & Gas(18)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
59 "500" SHARE INDEX(609)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
61 FINANCIAL GROUP(92)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
62 Banks(9)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
65 Insurance (Life)(6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
66 Insurance (Composite)(7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
67 Insurance Brokers(10)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
68 Merchant Banks(6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
69 Property(28)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
70 Other Financial(24)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
71 Investment Trusts(110)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
99 FT-A ALL-SHARE(810)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	2873.9	2877.7	2878.5	2887.1	2894.1	2900.1	2902.4	2898.5	2902.2	2903.4	2873.6
FT-SE Mid 250	3204.5	3205.9	3208.7	3210.8	3213.9	3216.4	3217.0	3217.3	3218.7	3218.8	3204.5
FT-SE-A 350	1433.4	1435.0	1436.0	1439.2	1442.2	1444.6	1445.7	1444.2	1445.8	1446.3	1433.3

Time of FT-SE 100 high: 4.29pm low: 8.31am

FT-SE Actuaries 350 Industry Baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous close	Change
Construction	1829.8	1828.7	1829.2	1831.3	1835.7	1830.2	1831.1	1827.8	1827.8	1827.8	1838.1	-10.3
Health&Hsehld	1044.6	1043.1	1043.2	1043.5	1044.4	1045.3	1045.8	1038.0	1041.2	1040.7	1050.0	-5.3
Water	1302.5	1303.9	1308.6	1314.4	1313.3	1318.9	1318.9	1321.7	1323.2	1323.2	1319.6	+3.6
Banks	1765.2	1758.0	1758.5	1758.6	1761.4	1765.9	1769.3	1765.2	1764.8	1765.1	1760.2	+4.9

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. [illegible]

Account Dealing Dates

First Dealings:	Jun 7	Jun 21	Jul 5
Option Declarations:	Jun 17	Jul 1	Jul 15
Last Dealings:	Jun 18	Jul 2	Jul 16
Account Day:	Jun 28	Jul 12	Jul 26

*New time dealings may take place from 8.30am two business days earlier.

Heavy trade in NIE

IN KEEPING with other privatisation issues, Northern Ireland Electricity (NIE) got off to a better than expected start, the shares opening at 125p, five to six points higher than had generally been expected by dealers and senior marketmakers, and maintaining their early momentum. NIE is the last of the electricity companies to be privatised.

The stock price quickly moved up to touch 130p, before settling at 126½p. Turnover in NIE, easily the highest in the market yesterday, reached 51m shares.

Dealers said the strong performance by the shares reflected the recent good showing of the utilities sectors in the stock market, particularly the power generators, which have recently been hitting all-time highs after announcing results above expectations and raising hopes of bumper dividend payouts.

The regional electricity companies have recently begun to announce preliminary results, the three companies reporting so far unveiling dividend increases of 14 to 15 per cent.

There was evidence that some institutions, unable to acquire sufficiently high weightings in NIE, decided to take the hefty premium offered and sell their allocations. Others, however, were said to have been aggressive buyers of NIE, and determined to reach target weightings.

The first day premium on NIE is similar to those achieved by the water stocks, the "recs" and the power generators. The Scottish generators enjoyed much smaller initial premiums.

Wellcome fears

The worst individual performance in the FT-SE 100 Index came from Wellcome, whose shares fell 3.4 per cent after being hit by a series of bearish developments.

These included the cancellation of a clinical study of one of its drugs, Flolan, which dragged down a share price already burdened by worries about litigation over Wellcome's Aids drug Retrovir and press comment detailing criticism of Wellcome's herpes drug Zovirax. Another factor helping to depress the shares was a downgrading of the drugs sector by Kidder Peabody, one of the leading US brokerages, last Friday night.

Wellcome shares dropped to 702p at one point before stabilising and closing a net 25 down at 705p, the lowest closing level since April 19. Turnover of 3.6m was well above usual levels of activity.

Commenting on the barrage of bad news, one leading analyst said: "The Flofan news is unhelpful but not particularly bad, while there is nothing new in the other stories."

Zeneca active

Both classes of Zeneca shares eased 4 to 618p, with activity concentrated in the "old" stock, where turnover reached 3.9m. The £1.3bn rights issue, at 600p a share, closed yesterday and the easier trend in the stock price was attributed to expectations that any stock not taken up by holders will be placed in the market by the brokers to the issue.

Fisons, on the other hand, extended the recent outstanding performance, with the shares closing a net 5½ up at 177p after heavy turnover of 8.2m. Specialists attributed the spectacular outperformance of the stock – up from a low of 147p only a couple of weeks ago – to the recent approval of Tilade by the US authorities.

Amersham jumped to 775p xd after the US Food and Drug Administration approved the company's Metastron drug.

Reuters success

News that Reuters had reached its initial target of executing an average 1,000 trades a day on its Dealing 2000-2 foreign exchange trading system triggered a flurry of strong support as some analysts adopted the view that the new system has established clear marketing leadership within the lucrative forex market. Reuters rose 16 to 1347p on turnover of almost 1m shares.

"We believe it is possible for Reuters to achieve a 10 per cent market share in forex, which is now a highly profitable growth market," said Mr Brian Newman, electronics analyst at Henderson Crosthwaite, the stockbroker.

The Henderson analyst said he believed Reuters had left the international opposition in forex dealings systems far behind. Volume carried out by Minex, controlled by a consortium of Japanese banks, was mostly sourced in Japan, while the start-up of the EBS system, run by a consortium including Telerate, had been delayed to September.

Thorn strong

The market welcomed Thorn EMI's decision to sell its lighting business to Investcorp, a Bahrain international investment bank, for £162m, especially against the backround of an otherwise dull leisure sector. The shares gained 25 at 920p – the company's first break ever through 900p – as 1.3m shares changed hands.

Traders saw the move as a step closer to Thorn's presumed goal of discarding periferals to leave the company with two core businesses, music and rentals. Thorn has sold about 60 firms since 1987 and now makes 82 per cent of profits from music and rentals.

The market ultimately expects to see a de-merger but was taken somewhat by surprise by the long-expected move which has been little discussed in recent weeks.

A generally sluggish banks sector provided a bright spot in TSB which moved to an all-time high of 198p, before closing 2 higher at 197p, a net gain of 3, ahead of interim figures scheduled for Thursday. TSB is the first of the clearing banks to report their half-yearly numbers, with Lloyds the next to report at the end of next month.

Analysts' interim profits forecasts extend from around £50m to as high as £130m, compared with last time's £92m, with provisioning against bad debts expected to show an increase on the previous year's first half but a fall on the second half figure. NatWest Securities is forecasting a 5 per cent increase in the interim dividend to 3.3p.

Turnover in British Steel rose to 18m shares after the board disclosed losses that were lower than the market expected.

US selling early in the session prompted a decline in the shares to 96p, a fall that was reversed with the release of the figures. However, analysts' concerns about steel overcapacity in the EC took hold in the afternoon bringing a further decline in the shares which closed a touch harder on the day at 98-3/4p.

Shares in Rolls-Royce shed 2-1/2 to 147-1/2p after trade of 5.5m on fears that development costs for its new Trent-800 engine may be higher than expected.

Worries about overcapacity in European steel also hurt ASW Holdings and the shares gave up 8 to 205p. Weekend press comment boosted Aerospace Engineering. The shares hardened 2 to 28p. Unconfirmed talk of a broker's profit upgrading for BTR saw the shares advance 13 to 368p.

Grand Metropolitan moved up 14 to 426p, on 6.7m shares traded ahead of an analysts meeting. Analysts said the company continued to benefit from last week's brokers' advice to sell Guinness in favour of Grand Met.

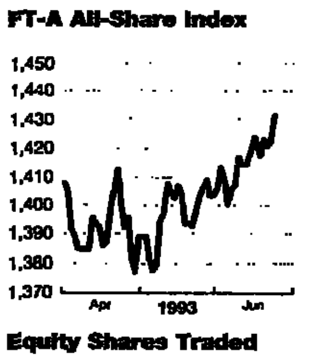
Food manufacturers were mostly firm with Tate & Lyle up 6 at 381p on news that a strike at one of its American factories was over. Hillsdown, the poultry to upholstery group, bucked the market to finish the day off 5 at 136p.

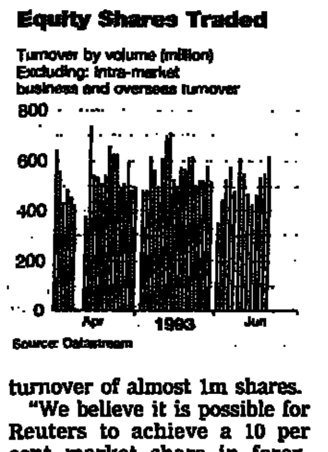
United Biscuits, is still riding a bid rumour and finished up 8 at 408p. Once again Cadbury Schweppes was tipped as the chief suspect.

The shares of bananas importer Geest continued to slide on traders' nerves over the future of the European Community's banana regime, now the subject of an enquiry by a panel of the General Agreement on Tariffs and Trade (GATT). The stock finished down 10 at 344p.

MARKET REPORTERS:
Steve Thompson,
Joel Kibazo,
Catherine Milton.

■ Other statistics, Page 28





NEW HIGHS AND LOWS FOR 1993

NEW HIGHS (146). BRITISH FUNDS (2) Treas. 8pc '13, Treas. 2½pc, OTHER FIXED INTEREST (4) [illegible] Coal, Centenary, Central Pacific, Cons. Murchison, Minorco, Portman, Sipa.

NEW LOWS (23). AMERICANS (1) Gen. Host., BUSINESS SERVS (2) Penna, REA, CHEMS (1) Physu., ELECTRONICS (1) Blick, ENG GEN (1) Wellman, FOOD MANUF (1) Assoc. Fisheries, FOOD RETAILING (1) Low (Wm), HEALTH & HSEHOLD (2) Brit. Bio-Tech., Creighton's, Jeyes, HOTELS & LEIS (1) Eurocamp, INV TRUSTS (3) EFM, I & S Optimum Inc., Lon. Amer. Ventures, MTL & MTL FORMING (2) Cohen (A), Johnson Matthey, MISC (2) McLeod Russel, Sinclair, OTHER FINCL (1) Cambridge, TEXTS (1) Dawson, PLANTATIONS (1) Kuala Lumpur Kepong.

FINANCIAL TIMES EQUITY INDICES

	June 21	June 18	June 17	June 16	June 15	Year ago	* High	* Low
Ordinary share	2274.4	2252.3	2248.5	2253.2	2250.3	1986.4	2299.5	2124.7
Ord. div. yield	4.07	4.11	4.12	4.11	4.12	4.65	4.52	4.07
Earning yld % full	4.82	4.87	4.88	4.87	4.87	6.83	6.38	4.82
P/E ratio net	26.55	26.29	26.25	26.29	26.29	18.34	26.55	19.40
P/E ratio nil	24.56	24.45	24.45	24.46	24.46	17.01	24.56	18.14
Gold Mines	186.5	180.8	174.5	173.9	169.8	98.7	202.7	60.0

*for 1993. Ordinary share index since compilation: high 2299.5 10/3/93 - low 49.4 26/6/40
Gold Mines Index since compilation high: 734.7 15/2/83- low 43.5 26/10/71
Basic Ordinary share 1/7/35; Gold Mines 12/9/55.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2251.8	2255.1	2257.0	2261.9	2268.3	2271.5	2273.7	2270.6	2273.4	2274.5	2251.3

Volume	June 21	June 18	June 17	June 16	June 15	Year ago
SEAQ Bargains	30,592	34,637	29,390	28,150	27,736	21,824
Equity Turnover(£m)†	-	1425.2	1358.5	1389.8	1158.3	949.3
Equity Bargains†	-	38,401	35,831	32,177	33,254	25,058
Shares traded (mil)†	-	615.0	555.1	540.4	477.4	368.5

† Excluding intra-market business and overseas turnover.

LONDON SHARE SERVICE

BRITISH FUNDS

Notes	Price £	+ or -	1993 high	1993 low	Yield Int.	Yield Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
14pc '98-1	126⅛	+⅞	129½	125⅛	11.09	7.50
Five to Fifteen Years						
Treas 15¼pc '98‡‡	135¼	+⅞	138⅞	133⅞	11.48	7.32
Exch 12pc 1998	119⅞	+⅞	122⅞	118⅞	10.03	7.50
Treas 9½pc 1999‡‡	109⅞	+⅞	112½	108⅞	8.67	7.36
Exch 12¼pc 1999	121⅞	+⅞	124⅞	120⅞	10.08	7.58
Treas 10½pc 1999	114⅞	+⅞	117⅞	112⅞	9.18	7.43
Conversion 10¼pc 1999	113⅞	+⅞	117⅞	112⅞	9.01	7.48
9pc 2000‡‡	108⅞	+⅞	110⅞	106	8.33	7.42
Treas 13pc 2000	127⅞	+⅞	131	125½	10.17	7.76
10pc 2001	112⅞	+⅞	115⅞	109⅞	8.86	7.73
9¾pc 2002	112⅞	+½	114⅞	108⅞	8.69	7.86
8pc 2003‡‡	101⅞	+⅞	103⅞	97⅞	7.87	7.76

BRITISH FUNDS - Cont.

Notes	Price £	+ or -	1993 high	1993 low	Yield Int.	Yield Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7¾pc 2012-15‡‡	94⅞	+⅞	[illegible]	[illegible]	[illegible]	[illegible]
Treas 8¾pc 2017‡‡	104⅞	+¼	[illegible]	[illegible]	[illegible]	[illegible]
Exch 12pc '13-'17	133⅞	+¼	[illegible]	[illegible]	[illegible]	[illegible]
Undated						
Consols 4pc	47⅞	+½	[illegible]	[illegible]	[illegible]	[illegible]
War Loan 3½pc‡‡	41⅞	+⅛	[illegible]	[illegible]	[illegible]	[illegible]
Conv 3½pc '61 Aft.	62⅞	+⅞	[illegible]	[illegible]	[illegible]	[illegible]
Treas 3pc '66 Aft.	35⅞	+¼	[illegible]	[illegible]	[illegible]	[illegible]
Consols 2½pc	31¼	+⅛	[illegible]	[illegible]	[illegible]	[illegible]
Treas. 2½pc	30¼	+1⅛	[illegible]	[illegible]	[illegible]	[illegible]

BRITISH FUNDS - Cont. / OTHER FIXED INTEREST

Notes	Price £	+ or -	1993 high	1993 low	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

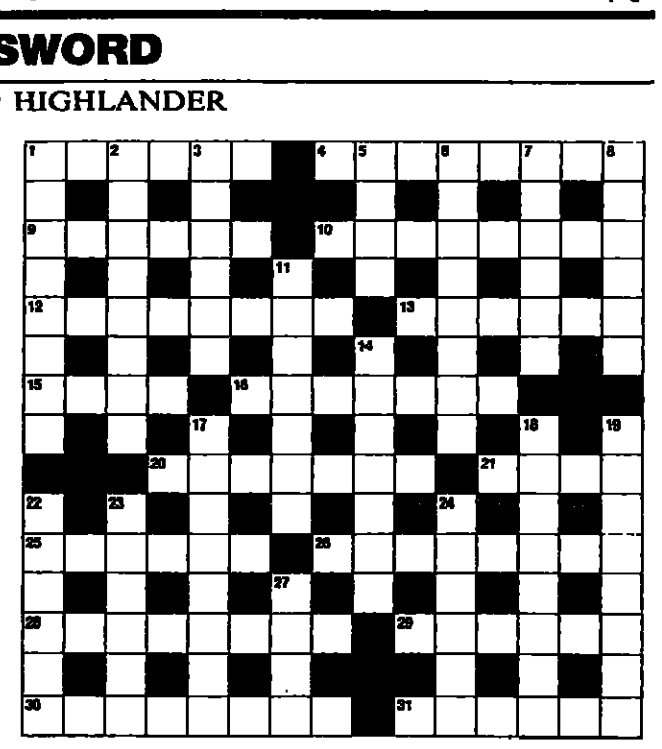
Continued on next page

CROSSWORD

No.8,182 Set by HIGHLANDER

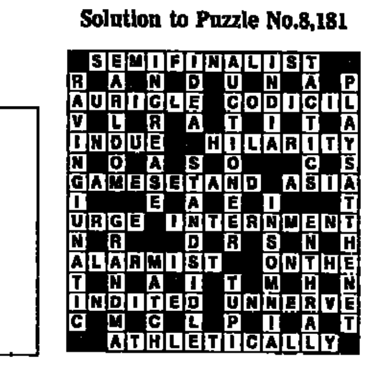
ACROSS
1 What's cooked for breakfast contains key to fire on hill (6)
4 Blooming reliable person, although not Oxbridge (8)
9 Unidirectional figure system (3-3)
10 Peer into magnificent island (8)
12 Fly responsible medical people to Andean capital (8)
13 Henry changed many first lines in songbook (6)
15 Overcharge man on board for bird (4)
16 Big animal tax people covered by mistake (7)
20 Ask for origin of bread and cheese recipe (7)
21 Girl produces article on sodium (4)
25 Sailor tells fibs about cliff descent (6)
26 Put stop to a cheap building (8)
28 Old bomber surprisingly nimble carrying explosive into battle (8)
29 Princess made off with crown (6)
30 Retail arrangement has line related to written matter (8)
31 Being sound of cat heard by child (6)

DOWN
1 Slips into underwear (8)
2 State is wrong about extreme dislike (8)
3 Stop a question arising if part of content is obscure (6)
5 Annoyed about Aphrodite's son appearing in circus (4)
6 Hector unavailable to get game going (5,3)
7 Not affected by one decoration (one in Paris) (6)
8 Light type, less exhausting to start (6)
11 He attacks and is out (7)
14 Chap cut out to make up lost ground (5,2)
17 Crack perch – die horribly (8)
18 Incorporates in hints about end of world (8)
19 Put down females who are unprofessional (8)
22 Skip about to take a chance, say (6)
23 Agree to rise for auditor (6)
24 Soldier going over by night reported fire (6)
27 He tells stories to get bar set up (4)



JOTTER PAD

Solution to Puzzle No.8,181



EQUITY FUTURES AND OPTIONS TRADING

THE REDUCTION in interest rates in two European countries fuelled speculation of a similar move in the UK, leading to an advance in stock index futures, writes Joel Kibazo

On its first full day as market leader, the September contract on the FT-SE 100 opened at 2,896, well below Friday's strong finish. However, hopes of a cut in UK base rates attracted buyers to the September contract sending it sharply ahead. It not only established strong premiums over the cash market but was one of the main factors in pulling the cash higher.

While non-EC trade figures released later were greeted favourably, it was the announcement shortly after mid day of a cut in interest rates in France and later Portugal, that led to further active buying. The day's high of 2933 was recorded just after lunchtime.

Leading securities houses used the opportunity bargains to arbitrage between the cash and futures, a factor which contributed to day's high volume.

September closed at 2927 some 14 points above the fair value premium to cash which now stands at 11 points. Volume was a healthy 10,125 contracts.

Turnover in traded options remained uninspiring at 24,573. British Steel which reported figures yesterday was the most active among stock options with a total of 27,540.

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	+ or –	1993 high	1993 low	Mkt Cap£m	Yld Gr's
Abbott Labs		17¼xd	–¼	20¼	15½	14,898	2.5
Allegheny & W	♥	631p	+4	631p	395p	327.9	3.0
Amdahl		362p	+3	591p	302½p	408.5	0.9
Amer Cyanamid		35	—	38⅝	31¼	3,185	3.0
Amer Express		20¾xd	+⅛	20¾	14⅞	9,715	3.1
Amer T & T		41¼xd	—	41⅞	39⅛	54,858	2.0
AmerItech		62⅜	+½	62¾	46	23,095	4.4
BankAmerica		28⅞xd	–¼	38¼	27⅛	10,044	3.1
Bankers NY		49⅞xd	+¼	51¾	42⅞	3,787	4.2
Bell Atlantic		37¼	–¼	39⅛	32¼	16,399	4.5
BellSouth		35¼	–½	39⅞	32⅞	17,650	4.9
Bethlehem Steel	♥	11½xd	–⅛	13¼	10	1,080	–
Bowater		1369pxd	+9	1652p	1293p	493.9	1.8
CPC		27⅝xd	–⅛	34⅝	26	4,184	2.9
Cadiz Land Inc	♥	183p	—	183p	63p	–	–
California Engy		1398p	—	1478p	1085p	247.2	–
Chase Manhattan		20xd	+¼	24½	17⅞	3,127	3.8
Chrysler		30¼xd	+⅛	30¾	21¼	9,004	1.2
Citicorp		18⅝xd	+⅛	20¼	13⅛	6,808	–
Colgate-Palm		37⅝xd	+⅛	40⅝	35⅛	6,007	2.1
Cont'l Bank		1585p	–5	1677p	1278p	1,529	2.5
Dana		34½xd	+⅛	35⅞	29⅛	1,684	2.9
Data General		696p	–14	901p	593p	173.8	–
Docora Inds	♥	141p	—	148p	109p	–	–
Dun & Brad		39	–⅛	42⅛	37⅛	8,955	4.0
Eaton		60	–⅛	60½	50⅝	2,080	2.3
Echlin		18xd	+¼	18⅞	15⅛	1,031	2.4
FPL		25¼xd	+¼	27⅝	23¼	4,587	6.2
Ford Motor		33⅞xd	—	36½	28⅛	16,412	1.9
Gen Elect		63⅞xd	+⅛	63⅞	53⅞	34,605	2.5
General Host	♥	595p	–13	723p	555p	–	4.1
Gillette		33xd	+1⅛	42⅞	31⅛	7,251	1.8
Hasbro		20⅞	—	20⅞	20⅞	1,819	0.7
Honeywell		24⅛xd	–⅛	24⅛	20⅛	3,288	2.3
Houston Inds		29	—	33¼	28¼	3,755	6.5
Ingersoll-Rand		23⅛xd	+⅛	26	19⅛	2,461	1.9
Lockheed		41½	—	42⅞	35⅛	2,548	3.2
Lowe's	h	2449p	–26	2467p	1573p	1,786	0.7
Merrill Lynch		49⅛xd	+⅛	50⅞	37	5,045	1.5
Morgan (JP)		44⅞xd	+⅛	49½	39⅛	8,598	3.4
[illegible]		[illegible]					

CANADIANS

[illegible]

BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

BUILDING MATERIALS - Cont.

[illegible]

BUSINESS SERVICES

[illegible]

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

ENGINEERING-AEROSPACE

[illegible]

ENGINEERING-GENERAL

[illegible]

ENGINEERING-GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HOTELS & LEISURE

[illegible]

HOTELS & LEISURE - Cont.

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIALS

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

	Price	+ or	high	low	Mkt Cap£m	Yld Gr's
Greenwich Res	16½	+1	22¼	5	12.9	-
Hemlo Gold C$	£8¼	....	£8⅝	£3½	604.8	1.5
Ivernia West I£	48	....	57	31	24.1	-
Kells Minls I£	12	....	13	6	0.29	-
Kenmare	8¾	-½	13½	6	8.78	-
Malings Res.	19½	+2½	25½	13½	2.15	-
Navan Res I£	74	....	77	25	12.6	-
5pc Ln Notes	74	....	77	25	13.3	-
Oryx Gold	74	....	74	47	-	-
‡‡Ovoca Res I£	3½	....	3½	3½	0.24	-
RTZ	688xd	+8	709	607	6,817	3.9
Vizcaya	6¼	....	6¼	2¼	3.08	-

MEDIA

MOTORS

OIL & GAS

INVESTMENT COMPANIES

STORES

PACKAGING, PAPER & PRINTING

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols relating to dividend states appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- • Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- Φ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ✣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- ‖ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. v Not subject to ACT. z Dividend yield includes a special payment. E Auction basis. F Yield based on prospectus or other official estimates for 1994-95. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1993. K Yield based on prospectus or other official estimates for 1992-93. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1993-94. N Figures based on IMRI "Headline Earnings" draft proposals. P Figures based on prospectus or other official estimates for 1994. R Forecast annualised yield, p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xR ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

AIB Unit Trust Managers Limited (1000)F
51 Belmont Rd, Uxbridge, Middx UB8 1RZ 0895 259783

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
AIB Grofund American	5	156.9	159.7	167.8	+1.20	0.00
AIB Grofund Equity	5	204.5	207.6xd	219.6	-0.20	0.93
AIB Grofund Euro	5	163.3	165.2	173.8	-0.40	0.25
AIB Grofund Ext Balanced	3	102.0	103.9	107.1	—	2.77
AIB Grofund Gilt	3	77.85	77.87	80.39	+0.09	5.08
AIB Grofund Japan	5	162.8	164.1	172.8	-6.90	0.00

AXA Equity & Law Unit Tst Mngrs (1200)H
Equity & Law Hse, Corpn St, Coventry 0203 553231

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
General Inc	5	424.8	428.1	453.4	-0.2	2.42
General Acc	5	465.0	467.5	497.4	-0.1	2.42
UK Growth Acc	6	311.5	315.8	335.7	+1.2	2.68
UK Growth Inc	6	220.6	223.5	237.8	+0.7	2.68
Higher Inc Acc	6	567.7	576.6	612.4	+1.8	3.63
Higher Inc Inc	6	344.9	349.7	372.1	+1.1	3.63
Gilt/Fxd Int Acc	5½	176.4	176.4	186.3	+0.7	6.17
Gilt/Fxd Int Inc	5½	92.43	92.43	97.61	+0.3	6.17
Nth America	6	260.3	256.3	272.7	+3.7	0.00
Far East	6	290.2	290.2	308.8	-7.3	0.21
Europe	6	222.0	225.8	240.0	+0.9	1.04
Brit Excell	6	63.73	63.73xd	67.80	+0.33	2.89
Brit Fndmtls Acc	6	86.22	86.22	91.73	+0.27	4.83
Brit Fndmtls Inc	6	66.89	66.89	71.16	+0.2	4.83
Global Opps	6	70.43	71.91xd	76.51	-0.84	0.07
Balanced Acc	6	47.23	47.75	50.80	+0.01	2.79
Balanced Inc	6	47.23	47.75	50.80	+0.01	2.79

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Gilts & Fixed Int	6	129.3	129.3xd	137.1	+0.2	6.08
High Inc Equity	6	147.8	150.5	160.1	+0.5	4.97
Worldwide Bond	6	270.1	270.1xd	286.4	+0.5	3.67
American Growth	6	288.2	288.2	306.3	+1.8	.06
Asian Pacific	6	239.6	244.6	260.4	+0.3	.63
Assets & Earnings	6	221.0	221.0xd	235.3	+0.7	2.38
Capital Reserve Acc	0	136.1	136.1	136.2	—	5.19
Comdty & Energy	6	85.03	85.03	90.94	+2.39	.60
1992 Enterprise	6	81.57	81.57	87.24	+0.12	2.02
Euro Capital Acc	6	109.0	109.0	116.5	+0.2	.87
Euro Capital Inc	6	102.5	102.5	109.6	+0.2	.89

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♠) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♣) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

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Smith & Williamson Unit Tst Mgrs (1600)F
1 Riding House St, London W1A3AS 071-637 5377

	Init Charge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
S & W American	5	265.4	265.4	275.9	+2.4	0.78
S & W Capital	5	118.7	118.7	127.5	+0.2	1.01
S & W Cash	0	101.09	101.09	101.09	+0.01	5.25
S & W European	5	112.0	112.0	118.5	+0.1	1.00
S & W Far Eastern	5	147.7	149.2	157.8	+0.2	0.00
S & W Growth	5	125.4	127.4	134.8	+0.5	1.79
S & W Income	5	113.2	114.3	120.9	-0.1	4.55
S & W Magnum	5	123.3	123.3	132.4	+0.2	1.56
S & W Smlr Secs	6	318.4	325.2	344.1	+0.8	0.50
S & W Thoroughbred	5	144.8	144.8	155.6	+0.2	1.50

Sovereign Unit Tst Mngrs Ltd (1000)F
12 Christchurch Rd, Bournemouth 0202 290472

Cash	1	49.77	49.77	50.27	+0.01	5.3
Central Finance	5½	50.25	56.58	60.13	+0.07	7.9
Elmcal	5½	52.52	53.43	56.84	+0.06	3.9
European Growth	5½	57.00	57.98	61.84	+0.75	3.0
Income	5½	52.33	52.70	56.21	+0.10	5.9
Intl Growth	5½	79.73	80.27	85.62	+0.31	3.0
Managed	5½	70.31	71.05	75.78	+0.27	3.0
UK Growth	5½	56.39	57.00	60.80	+0.10	4.4

Standard Life Tst Mngmt Ltd (0730)H
3 George St, Edinburgh EH2 2XZ 0800 393777

Managed Acc	5¼	43.95	43.95	46.70	-0.1	1.68
UK Equity Gth Acc	5¼	58.89	58.99	62.74	+0.1	1.56
UK Eq High Inc Inc	5¼	34.80	34.80	37.00	-0.1	3.94
UK Eq High Inc Acc	5¼	41.42	41.42	44.01	-0.1	3.94
UK Equity Gen Acc	5¼	53.09	54.88	58.32	—	2.28
UK Equity Gen Inc	5¼	40.80	41.58	44.16	—	2.28
UK Larger Cos Acc	F 7½	380.2	374.1	405.9	—	3.70
UK Larger Cos Inc	F 7½	283.5	287.3	311.8	-0.2	3.70
Gilt & Fxd Int Inc	5¼	30.30	30.31	32.14	-0.1	3.70
Global Lrgr Cos Acc	F 7½	271.0	275.7	299.2	+0.1	0.58
Nth American Acc	5¼	42.44	42.72	45.39	-1.6	1.45
Far East Acc	5¼	53.30	55.70	58.70	+0.2	0.73
European Acc	5¼	40.78	40.78	43.33	-0.3	1.25

State Street Unit Trust Mngmt Ltd (1400)F
20 Birchin Lane, London EC3V 9AD 071-626 1599

Global A	6¼	3.5186	3.617	3.842	—	1.20
US Equities (U)	5¼	2.058	2.058	2.186	—	0.80

Foreign & Colonial Unit Management Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Balanced Acc Jun 15	185.4	192.6	+1.6	3.54
Balanced Inc Jun 15	184.0	191.1	+0.6	3.84
Latin American Acc Jun 16	102.0	103.2	+1.1	3.54

Funds in Court*

Capital May 14	558.18	562.37	—	3.67
Gross May 14	212.85	214.57	—	9.79
High Yield May 14	338.49	341.13	—	7.82

* Restricted to monies under Court control

Govett (John) Unit Mngmt Ltd

Managed Exempt	10.00	8.00	—	0.00

Henderson Unit Trust Management Ltd

Pensions Mngd	62.19	63.48	+0.16	2.89
Henderson TR				
Ex European	1318.70	1327.58	+6.05	1.66
Ex Nth American	1403.63	1424.78	+14.40	0.80
Ex Pacific Basin	932.21	950.46	-19.58	0.07
Ex Smaller Cos Inc	1934.45	1985.59	+0.52	2.70
Ex Smaller Cos Acc	2077.76	2191.85	+0.56	2.70

INVESCO Asset Management Ltd
Exempt Funds

Asia & Australasia	£3.1570	3.2290	—	-
Far Eastern	£2.1490	2.1830	—	-
Intl Mngd P'Fund (1000-h)	£1.5100	1.6130	—	-
Mngd Pnns (Acc)	£0.8541	0.8297	—	-
North American	£2.5400	2.5740	—	-
Smaller Companies	£1.4900	1.4940	—	-
UK Core	£1.0210	1.0370	—	-

Lazard Brothers & Co. Ltd

Property Mar 4	£1900.00	2100.0	—	7.00
Inc Gth Prp Feb 3	£1200.0	1400.0	—	6.90

Lazard Investors Ltd ‡
Exempt Funds

Small Co's Jun 10	£5193.4	5380.8	—	2.82
European Jun 16	£700.8	709.9	—	1.66
American Jun 16	£422.8	428.5	—	1.40

INSURANCES

OTHER UK UNIT TRUSTS

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FT MANAGED FUNDS SERVICE

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Provident Life Assoc Ltd
Provident Way, Basingstoke RG21 2SZ 0256 470707

	Bid Price	Offer Price	+ or -	Yield Gross
Gold Range (Pensions)				
Discretionary Fund	157.7		+0.2	-

Provident Mutual Life Assc. Assn.
6 Hills Way Stevenage Herts SG1 2ST 0438 732000

	Bid Price	Offer Price	+ or -	Yield Gross
Managed Ord	418.6	440.5	+0.6	-
Managed Init	295.9	311.5	+0.4	-
Equity Ord	629.3	662.4	+2.6	-
Equity Init	445.0	468.4	+1.7	-
Index Linked Gilt Ord	194.8	205.1	+0.4	-
Index Linked Gilt Init	143.6	151.4	+0.1	-
Overseas Equity Ord	333.2	350.7	-1.2	-
Overseas Equity Init	235.6	247.9	-1	-
Property Ord	227.5	239.5	+0.1	-
Property Init	160.9	169.4	+0.1	-
Fixed Interest Ord	261.6	273.4	+0.7	-
Fixed Interest Init	184.9	194.6	+0.3	-
Deposit Ord	196.7	207.1	---	-
Deposit Init	139.1	146.4	---	-
Pension Funds				
Managed Ord	552.6	581.9	+1.1	-
Managed Init	390.9	411.5	+0.8	-
Equity Ord	860.1	906.4	+4.5	-
Equity Init	608.1	640.1	+2.9	-
Pen Ind Lkd Gilt Ord	221.8	233.6	+0.4	-
Pen Ind Lkd Gilt Init	163.8	172.4	+0.2	-
Overseas Equity Ord	386.9	407.3	-1.6	-
Overseas Equity Init	273.5	287.9	-1.3	-
Property Ord	290.7	306.0	+0.2	-
Property Init	205.5	216.3	+0.1	-
Fixed Interest Ord	340.3	358.2	+0.9	-
Fixed Interest Init	240.6	253.5	+0.6	-
Deposit Ord	288.0	303.2	+0.1	-
Deposit Init	203.6	214.3	---	-

Prudential Assurance Co
Holborn Bars, London EC1N 2NH 071-405 9222

	Bid Price	Offer Price	+ or -	Yield Gross
Prufund				
Managed June 2	303.3	319.0	---	-

Prudential Corporate Pension Funds
1 Stephen St, London W1P 2AP 0734 494852

Prudential Managed Funds

Scottish Amicable
150 St Vincent St, Glasgow 041-248 2323

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds (First Series)				
Managed	407.4	428.8	+1.30	-
Equity	513.2	540.3	+4.30	-
Property	239.4	252.0	---	-
International	394.5	415.3	-4.10	-
Japanese	108.9	114.6	-4.90	-
Asia Pacific	141.1	148.6	-0.40	-
European	107.9	173.6	+0.20	-
American	143.6	151.2	+1.80	-
Fixed Interest	340.1	358.0	+2.30	-
Index-Linked Gilt	186.3	196.2	---	-
Cash	220.2	231.8	+0.10	-
Life Funds (Second Series)				
Managed	113.4	119.4	+0.40	-
Equity	110.3	116.2	-0.90	-
Property	100.6	105.9	---	-
International	121.9	128.4	-1.30	-
Japanese	109.1	114.9	-4.40	-
Asia Pacific	138.5	145.8	-0.30	-
European	107.0	112.7	+0.20	-
American	140.4	147.8	+1.80	-
Fixed Interest	127.9	134.7	+0.90	-
Index-Linked Gilt	119.2	125.5	---	-
Cash	109.2	115.0	---	-
Pension Funds				
Building Society	173.5	182.7	+0.10	-
Managed (Init)	236.0	248.5	+0.80	-
Managed (Acc)	458.1	482.6	+1.40	-
Equity (Init)	268.4	282.8	+3.10	-
Equity (Acc)	532.5	560.6	+6.00	-
Property (Init)	142.4	149.9	-0.10	-
Property (Acc)	282.4	297.3	---	-
International (Init)	233.0	245.3	-3.30	-
International (Acc)	462.0	486.4	-6.40	-
Fixed Interest (Init)	228.6	240.7	+1.80	-
Fixed Interest (Acc)	453.4	477.3	+3.80	-
Cash (Init)	154.0	162.2	+0.10	-
Cash (Acc)	305.8	321.8	+0.20	-
Others				
Capital Guaranteed Bond	100.6	105.9	+0.30	-

Scottish Equitable Life Assce. Soc.
28 St Andrew Sq, Edinburgh 031-556 9101

	Bid Price	Offer Price	+ or -	Yield Gross
Mixed	225.6	237.4	+0.1	-
UK Equity	216.7	228.1	+1.2	-

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Prudential Fund Managers (Jersey) Ltd
PO Box 103, St Helier, Jersey 0534 70000

Prudential Currency Fd (Formerly Vanbrugh Currency Fd)

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Income (A & D)	5	211.0	211.0	222.4	+1.3	4.00
Growth (C & D)	5	310.1	310.1	335.1	+2.0	5

Royal Trust Jsy Fd Mngt Ltd (1400)F
PO Box 428, St Helier, Jersey 0534 27441

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Govt Secs Fd	4	55.54	55.54	57.82	+0.07	7.61

Standard Bank Fund Mgmt (Jersey) Ltd
PO Box 583, St Helier, Jersey CI 0534 67557

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
International Bond	3	$-	15.90	16.83	-0.05	4.56
Sterling Bond	3	£-	9.7654	10.10	+0.02	8.63
Sterling Cap		£-	42.53	42.54	+0.01	5.28

TSB Trust Funds (CI)
PO Box 538, St Helier, Jersey 0534 503002

TSB Offshore Investment Fund Ltd

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Stg Deposit Class	3	102.40	102.40	105.47	+0.05	6.00
Gilt & Fixed Interest	3	118.78	118.78	123.13	+0.31	7.52
Gilt Cap & Gilt Edged	5	60.47	60.47	63.66	+0.24	3.58
International Bond	6	136.39	136.39	143.44	+0.83	4.94
UK Equity	5	255.44	263.06	277.53	+1.17	1.25
International Equity	5	178.47	181.74	190.67	+0.68	0.38
Far Eastern	5	168.77	169.90	178.84	-0.63	0.00
European	5	127.88	128.48	135.22	+0.56	0.00
Pan American	5	357.95	361.94	380.99	+5.80	0.00

TSB Gilt Fund Ltd

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Quarterly Share	3	107.01	107.01	110.48	-0.30	7.00
Monthly Share	3	104.89	104.89	108.31	-0.30	7.79

JERSEY (REGULATED)(**)

Bank Von Ernst & Cie AG - Contd.
International Sub-Funds

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Global Equity		$-	10.12	-	+0.01	-
Global Bond		$-	11.78	-	-0.01	-
Global Bond Div		$-	10.31	-	-	-
Global Managed		$-	9.81	-	-	-

Banque Scandinave a Luxembourg SA
16 Boulevard Royal, L-2449, Luxembourg

Skandifonds

Skandifund Equity Fund

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Equity Int. Acc	3	$-	15.8	16.8	-0.28	3.17
Equity Global	5	$-	1.4	1.48	-0.04	-
Equity Natural Res.	5	$-	1.1	1.17	-0.01	-
Equity Japan Acc	5	Y-	105.50	110.00	-2.08	-
Equity UK	5	£-	1.38	1.48	-	-
Equity Nordic	5	$-	1.24	1.31	-0.03	-
Equity North America	5	$-	1.93	2.03	-0.02	-
Equity Mediterranean	5	$-	0.87	0.93	-0.01	-
Equity Cont Europe	5	$-	1.41	1.49	-0.02	-

Skandifund Far East

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Far East Global	5	$-	3.48	3.68	-0.02	-

Skandifund Bond Fund

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Bond Int. Acc	1	$-	12.11	12.34	-0.01	6.04
Europe Bond Acc	1	$-	1.63	1.58	-0.03	7.15
Bond DEM Acc	1	DM-	1.22	1.24	-	6.64
Bond USD Acc	1	$-	1.4	1.42	-	5.79
Bond Sweden Acc	1	SKr-	10.34	10.52	-0.01	10.15

Skandifund International Sicav

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Int Emerging Markets	5	$-	1.05	1.11	-	-

Barclays Diversified Portfolio
14 rue Aldringen L-1118 352 4799 2930

INVESCO International Limited - Contd.
Warrant Funds

	Init Chrge	Canc Price	Bid Price
PS Nth American Wrnt		$-	5.57
PS North Amer Wrnt £		£-	3.02
Asia Tiger Warrant		$-	2.1700
Asia Tiger Warrant £		£-	1.44
European Warrant		$-	1.6700
European Warrant £		£-	1.11
Nippon Warrant		$-	1.9300
Nippon Warrant £		£-	1.28

Premier Select Funds

	Init Chrge	Canc Price	Bid Price
American Growth		$-	8.40
American Enterprise		$-	7.70
Asia Tiger Grwth		$-	7.29
Dollar Reserve		$-	5.30
European Growth		$-	3.95
European Enterprise		$-	4.71
Global Emrging Mkts		$-	8.38
Global Growth		$-	4.68
Greater China Opp		$-	5.17
Nippon Enterprise		$-	6.76
Sterling Reserve		£-	5.02
UK Growth		£-	4.78
Nippon Growth		$-	4.40

Jupiter Tyndall Global Fund
13 rue Goethe L-1637 Luxembourg

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

FOREIGN EXCHANGES

Dollar/DM at a 21-month high

THE DOLLAR yesterday consolidated Friday's powerful upward move against the D-Mark, touching its highest levels against the German currency since October 1991, before falling back amid profit-taking, *writes James Blitz.*

There was no important news affecting the fortunes of the dollar in European or US trading yesterday. But, amid economic weakness in Germany and a serious political crisis in Japan, the dollar is being courted by institutional investors who believe the currency's immediate prospects are very strong.

After closing on Friday in Europe at DM1.6800, the dollar moved up sharply in Monday's Asian trading, to peak at DM1.6953 at the start of European trading.

The currency later fell back against the D-Mark in Europe, partly pushed down by the figure for May's M3 money supply growth in Germany which was somewhat higher than had been expected.

Last week, at least two Bundesbank council members had led the market to believe that the May figure might fall within the Bundesbank's self-imposed target for M3 of 4.5 per cent to 6.5 per cent on an annualised basis. In the event, the figure came in at an annualised 6.7 per cent, leading some market participants to think that the Bundesbank might not cut its repo rate this week, increasing the return on D-Mark denominated investments.

The dollar closed at DM1.6890, up nearly a pfennig on the day.

Despite the setback, Mr Neil MacKinnon, head of currency research at Citibank in London, said that the current price action was similar to the dollar's in October of last year, after it had hit a historic low against the D-Mark. "That was followed by a 20 pfennig move upwards, and we could be on the verge of a similar move again," he said.

The dollar also rose against a yen that has been rocked by the political tremors enveloping Japan after Mr Kiichi Miyazawa's resignation as prime minister.

Dealers pushed the yen down to Y111.10 to the dollar by the European close after it had traded at around Y110 on Friday night.

The Japanese currency remains well underpinned by the country's massive trade surplus although one dealer suggested yesterday that it could soon hit Y115.

The French franc softened slightly against the D-Mark yesterday after the Bank of France again cut official interest rates. But the retracement was marginal, and the French currency closed at FFr3.360 having penetrated this level earlier in the day.

Sterling consolidated its strength against the weak D-Mark, closing unchanged at DM2.5125. But the currency weakened sharply against the powerful dollar, closing nearly a cent down yesterday at $1.4875. If the trend continues, it will undermine all thought of a base rate cut this summer.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Jun 21	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Portuguese Escudo	192.854	186.038	-3.53	4.49	59
Spanish Peseta	154.250	149.702	-2.95	3.86	51
Irish Punt	0.808628	0.802188	-0.80	1.81	40
Dutch Guilder	2.19672	2.19718	0.02	0.78	3
Belgian Franc	40.2123	40.2371	0.06	0.74	1
D-Mark	1.94964	1.95939	0.50	0.30	-27
French Franc	6.53883	6.58425	0.69	0.10	-34
Danish Krone	7.43679	7.49612	0.80	0.00	-32

£ IN NEW YORK

STERLING INDEX

CURRENCY RATES

CURRENCY MOVEMENTS

OTHER CURRENCIES

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EURO-CURRENCY INTEREST RATES

EXCHANGE CROSS RATES

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Pesets per 100.

FINANCIAL FUTURES AND OPTIONS

MONEY MARKETS

Ignoring Germany

SEVERAL European central banks took advantage of the D-Mark's weakness in the exchange rate mechanism yesterday and cut their official interest rates, *writes James Blitz.*

The Bundesbank has not cut any of its official interest rates for nearly six weeks. But, as the D-Mark comes under pressure because of Germany's growing economic and budgetary problems, European central banks have taken the opportunity to push short-term rates below German levels.

UK clearing bank base lending rate
6 per cent
from January 26, 1993

By far the most important round of policy easing has been by the authorities in France, who must have been especially concerned by yesterday's news that French industrial production dropped 5.2 per cent in the year to April.

The Bank of France yesterday pushed its intervention rate below the level of the German discount rate floor, cutting it by 25 basis points to 7 per cent. The central bank's 5-10 day lending rate came down by a similar amount to 8 per cent.

The move helped to push French 3 month money down some 20 basis points on the bid side from 7.05 per cent to 6.85 per cent. This in turn, widened the spread between German and French cash to some 50 basis points, as German rates remained more-or less unchanged.

Similar cuts occurred across Europe yesterday. The Dutch and Belgian central banks trimmed their advances rate and central rate respectively by 10 basis points to 6.90 per cent. The guilder had been threatening to fall outside the Dutch central bank's self-imposed 50 basis fluctuation band against the D-Mark in the ERM.

Portugal also cut its intervention rate by 0.25 percentage points to 11 per cent.

Dealers in sterling markets were rather more bullish about the prospects for a base rate cut in the UK following newspaper speculation at the weekend that Mr Kenneth Clarke, the new UK chancellor, would reduce base rates by ½ a percentage point this summer.

The September short sterling contract rose 10 basis points, to close at 94.19, on fairly heavy volume.

In the cash market, 3 month money was about ¼ per cent lower, at 5$\frac{13}{16}$ per cent. This was despite some difficulty removing a £1.45bn shortage, which left some £310m of late assistance.

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

BASE LENDING RATES

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

NOTES - Gross: Contractual rate of interest payable, not taking account of the deduction of basic rate income tax. Net: Rate of interest payable after allowing for deduction of basic rate income tax. Gross CAR: Gross rate annualised to take account of compounding of interest paid other than once a year. 'Compounded Annual Rate'. Int Cr: Frequency at which interest is credited to the account.

WORLD STOCK MARKETS

CANADA

TORONTO

4 pm close June 21

Quotations in cents unless marked $

Total Sales 22,423,311 shares

MONTREAL

4 pm close June 21

INDICES

NEW YORK

DOW JONES	June 18	June 17	June 16	June 15	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Industrials	3494.77	3521.89	3511.65	3492.00	3554.83 (27/5)	3241.95 (20/1)	3554.83 (27/5/93)	41.22 (2/7/32)
Home Bonds	107.28	107.44	107.42	107.53	107.67 (7/5)	103.49 (11/1)	501.37 (27/4/93)	54.99 (1/10/81)
Transport	1490.28	1491.52	1507.90	1522.81	1683.08 (16/4)	1453.84 (4/1)	1683.08 (16/4/93)	12.32 (8/7/32)
Utilities	238.55	240.86	240.42	233.48	247.68 (16/4)	217.14 (8/1)	247.68 (16/4/93)	10.50 (8/4/32)

DJ Indl. Day's High 3538.88 (3538.61) Low 3478.44 (3488.68) (Theoretical♣)
Day's High 3527.98 (3524.94) Low 3494.49 (3506.39) (Actual♣)

STANDARD AND POOR'S

	June 18	June 17	June 16	June 15	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	443.68	448.54	447.43	446.27	456.33 (10/3)	429.05 (8/1)	456.33 (10/3/93)	4.40 (1/6/32)
Industrials¶	510.67	517.08	515.86	514.50	524.89 (10/3)	496.48 (26/4)	524.89 (10/3/93)	3.62 (21/6/32)
Financial	42.85	43.08	42.80	42.77	46.67 (13/4)	39.88 (8/1)	46.67 (13/4/93)	8.64 (1/10/74)
NYSE Composite	244.94	247.21	246.60	245.92	251.36 (10/3)	236.21 (8/1)	251.36 (10/3/93)	4.46 (25/4/42)
Amex Mkt. Value	436.82	437.39	435.67	435.47	440.95 (4/6)	395.84 (8/1)	440.95 (4/6/93)	29.31 (9/12/72)
NASDAQ Composite	698.59	695.94	696.25	697.34	708.85 (4/2)	645.87 (26/4)	708.85 (4/2/93)	54.87 (31/10/72)

	June 11	June 4	May 28	year ago (approx.)
Dow Industrial Div. Yield	2.93	2.89	2.80	3.03
	June 16	June 9	June 2	year ago (approx.)
S & P Industrial div. yield	2.51	2.61	2.46	2.69
S & P Indl. P/E ratio	25.47	25.42	25.90	28.44

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
LTV Corp	14,930,300	1/2	- 1/2
Wal-Mart	6,583,300	25¼	- ⅝
Citicorp	4,919,800	27⅝	- ¼
Am T & T	3,579,700	61¼	- 1½
Merck	3,580,400	37	- 1⅝
Gen Motors	3,458,100	41¾	+ ⅛
Libbey Inc	2,956,300	13	—
Johnson & J	2,911,900	43	- 2¾
Exxon	2,890,100	65¼	- 1⅛
K Mart	2,751,900	22	- ⅝

TRADING ACTIVITY

† Volume Millions	June 18	June 17	June 16
New York SE	294.176	230.328	264.470
Amex	14.153	14.117	16.655
NASDAQ	249.916	245.438	239.898
NYSE			
Issues Traded	(u)	2,538	2,551
Rises	(u)	985	966
Falls	(u)	894	877
Unchanged	(u)	657	708
New Highs	(u)	63	45
New Lows	(u)	31	37

CANADA

TORONTO	June 18	June 17	June 16	June 15	1993 HIGH	1993 LOW
Metals & Minerals	2977.30	2935.19	2918.18	2914.14	2977.30 (18/6)	2743.31 (21/1)
Composite	3906.94	3903.70	3892.48	3887.79	3906.94 (18/6)	3275.80 (21/1)
MONTREAL Portfolio	1906.78	1908.74	1908.21	1908.09	1915.71 (26/5)	1720.97 (21/1)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. ♣ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¶ Subject to official recalculation.

	June 21	June 18	June 17	June 16	1993 HIGH	1993 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1726.6	1730.4	1727.2	1724.7	1780.40 (28/5)	1495.00 (13/1)
All Mining (1/1/80)	757.1	758.1	754.9	747.9	801.90 (28/5)	584.70 (13/1)
AUSTRIA						
Credit Aktien (30/12/84)	338.04	336.71	333.40	337.47	357.78 (8/3)	300.26 (14/1)
Traded Index (2/1/91)	848.09	838.89	833.14	838.51	860.17 (3/3)	712.65 (15/1)
BELGIUM						
BEL20 (1/1/91)	1243.04	1243.58	1238.67	1236.47	1269.11 (7/4)	1125.46 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	306.29	304.89	303.58	308.98	308.29 (21/6)	261.90 (4/1)
FINLAND						
HEX General (28/12/90)	1118.1	1117.2	1132.3	1125.8	1248.20 (21/5)	843.10 (22/1)
FRANCE						
CAC General (31/12/81)	520.81	520.50	524.10	519.26	547.37 (30/3)	471.24 (13/1)
CAC 40 (31/12/87)	1929.17	1910.28	1900.31	1918.81	2035.91 (30/3)	1772.21 (29/1)
GERMANY						
FAZ Aktien (31/12/58)	655.23	656.78†	658.82	657.84	675.70 (10/5)	598.92 (14/1)
Commerzbank (1/12/53)	1884.1	1888.0	1874.0	1871.6	1908.10 (10/5)	1694.30 (14/1)
DAX (30/12/87)	1689.82	1686.80	1692.29	1689.58	1717.40 (11/3)	1516.50 (13/1)
HONG KONG						
Hang Seng Bank (31/7/64)	7008.58	7200.75	7189.10	7304.83	7447.24 (27/5)	5437.80 (4/1)
IRELAND						
ISEQ Overall (4/1/88)	1578.34	1580.39	1572.89	1568.40	1591.74 (16/4)	1191.19 (11/1)
ITALY						
Banca Com. Ital. (1972)	525.70	527.87	521.96	508.01	558.17 (20/5)	446.33 (8/1)
MIB General (4/1/93)	1161.0	1168.8	1152.0	1120.0	1236.00 (20/5)	992.00 (11/1)
JAPAN						
Nikkei (16/5/49)	19212.43	19804.54	19925.51	19902.42	21076.00 (3/6)	16287.45 (25/1)
Tokyo SE (Topix) (4/1/68)	1531.26	1587.32	1583.59	1600.14	1678.13 (3/6)	1250.06 (25/1)
2nd Section (4/1/68)	2163.39	2225.10	2222.98	2244.27	2384.87 (7/6)	1651.72 (26/1)
MALAYSIA						
KLSE Composite (4/4/86)	(c)	735.25	720.46	736.31	746.29 (11/6)	614.28 (13/1)
NETHERLANDS						
CBS Tot.Rtn.Gen.(End 1983)	344.4	342.1	340.7	341.6	344.40 (21/6)	285.70 (4/1)
CBS All Shr (End 1983)	226.8	224.5	223.5	224.2	226.00 (21/6)	198.60 (13/1)
NORWAY						
Oslo SE (Ind) (2/1/83)	803.09	803.48	807.09	801.01	827.94 (6/5)	689.69 (27/1)
PHILIPPINES						
Manila Comp (2/1/85)	1573.91	1577.86	1578.30	1568.40	1654.38 (6/5)	1270.68 (4/1)
SINGAPORE						
SES All-Singapore (2/4/75)	457.27	457.73	453.56	452.51	468.48 (31/5)	394.10 (13/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1750.0¶	1693.0	1863.0	1843.0	1885.00 (24/5)	775.00 (5/1)
JSE Industrial (28/9/78)	4659.0¶	4658.0	4683.0	4641.0	4663.00 (17/6)	4333.00 (19/4)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	766.06	762.09	762.54	759.26	777.25 (9/6)	605.93 (6/3)
SPAIN						
Madrid SE (30/12/85)	263.66	264.77	261.04	260.64	264.77 (18/6)	215.60 (4/1)
SWEDEN						
Affarsvarlden Gen. (1/2/37)	1075.8	1078.9	1081.9	1083.1	1098.20 (27/5)	879.10 (28/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	1031.5	1024.4	1028.4	1015.2	1031.50 (21/6)	904.80 (11/1)
SBC General (1/4/87)	798.6	792.6	793.5	786.7	798.60 (21/6)	678.70 (11/1)
TAIWAN**						
Weighted Price (30/6/66)	4074.37	4150.26	4128.85	4188.9	5013.28 (7/4)	3098.43 (9/1)
THAILAND						
Bangkok SET (30/4/75)	887.95	888.84	880.66	873.39	998.44 (25/1)	818.84 (1/6)
WORLD						
M.S. Capital Intl.(1/1/70) $	549.9	558.1	565.0	565.2	576.30 (3/6)	488.50 (13/1)
Euro Top-100 (26/6/90)	895.72	891.43	888.41	884.08	895.72 (21/6)	882.73 (13/1)

**Saturday June 19: Taiwan Weighted Price; 4,114.90, Korea Comp Ex. 760.20.
¶ Subject to official recalculation. † Correction. *Calculated at 15.00 GMT.

Base values of all indices are 100 except Austria Traded, BEL20, HEX Gen., MIB Gen., CAC40, Euro Top-100, ISEQ Overall and DAX - 1,000, JSE Gold - 255.7, JSE 20 Industrials - 264.3 and Australia All Ordinary and Mining - 500; (c) Closed. (u) Unavailable

TOKYO - Most Active Stocks

Monday, June 21, 1993

	Stocks Traded	Closing Prices	Change on day
Hitachi	4.5m	794	-33
Nippon Steel	4.5m	382	-18
Mitsubishi Hvy	4.5m	828	-37
Sumitomo Mt Min	4.5m	802	-79
NEC Corp	4.3m	907	-63
Kawasaki Hvy Ind	3.7m	425	-29
NKK	3.0m	293	-17
Fujikura	2.8m	887	-68
Toshiba	2.8m	688	-8
Mitsui Min & Sml	2.7m	478	-30

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close June 21

1993 High	1993 Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
14⅝	11½	AAR Corp	0.48	3.7	23	122	13	12⅝	12⅞	+⅛
29⅞	20	A L Labs A	0.18	0.7	47	215	27¼	27	27	-⅛
63⅞	54⅝	AMP Inc	1.60	2.6	22	1430	63	62⅝	62⅞	+¼
72¾	55½	AMR			9	5737	63⅛	61⅝	62	-½
2¼	1¾	ARX			14	49	d2¼	2⅛	2¼	+⅛
51½	29⅞	ASA	2.00	4.6	29	544	44¼	43⅞	43⅞	-¼
30¾	22⅝	Abbott Lab	0.66	2.6	17	7558	26⅜	26	26⅛	
12⅝	10¾	AbitibiPr	0.50	4.3	4	6	11½	11½	11½	
14⅛	8¼	Acptncsin			53	10	12¾	12½	12¾	+⅛
11⅞	10¾	ACM Gvt In	0.96	8.3		232	11⅝	11½	11⅝	+⅛
10	9⅛	ACM GvOpp	0.80	8.1		60	9⅞	9¾	9⅞	
9⅝	8¾	ACM Gvt Sp	0.80	8.5		153	9½	9⅜	9⅜	
11⅞	10½	ACM Gvt Sc x	0.96	8.6		354	11⅛	11	11⅛	+[illegible]
11	9⅝	ACM Man	1.08	10.3		147	10⅝	10½	10½	-⅛
9⅞	6⅝	ACM Managd	0.72	7.9		220	9⅛	9	9⅛	
11⅞	7¾	Acme Clevo	0.40	3.8	13	1035	10⅝	10¼	10⅝	
9¼	6½	Acme Elect			287	42	8¾	8⅝	8⅝	
16	10⅞	Acuson			13	585	12⅞	12⅜	12⅝	-⅛
22¼	19⅝	Adams Expr	0.48	2.3	7	62	20⅞	20¾	20¾	
66	45½	Ad Micro	3.00	6.1		57	49¾	48⅞	49½	+½
32¾	17⅝	Ad Micro P	3.00	14.1	9	6619	21⅞	20¾	21¼	+⅝
7¾	5½	Advest Grp	0.16	2.7	10	114	6	5⅞	6	+⅛
24¾	20	Advo Inc	0.06	0.3	22	126	21	20⅞	20⅞	
49⅞	41⅛	Aegon ADR	2.95	6.6	9	80	45⅜	45	45⅜	
55⅞	43⅞	Aetna Lf	2.76	5.0	141	2228	55¼	54⅜	55¼	+½
14½	11½	AHN A	0.28	2.0	30	3855	13⅞	13⅛	13¾	-¼
32¼	28⅞	Aflac	0.40	1.4	15	4872	29½	28½	29½	-⅜
22⅛	16¾	Ahmanson	0.88	5.1	20	3518	17⅞	16⅞	17⅛	-¼
7¾	4⅝	Aileen Inc			8	26	5½	5⅜	5⅜	-⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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- P - Q -

- R -

Continued on next page

NYSE COMPOSITE PRICES

4 pm close June 21

Continued from previous page

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Telekurs

AMEX COMPOSITE PRICES

4 pm close June 21

NASDAQ NATIONAL MARKET

4 pm close June 21

- A - - B - - C - - D - - E - - F - - G - - H - - I - - J - - K - - L - - M - - N - - O - - P - Q - - R - - S - - T - - U - - V - - W - - X - Y - Z -

FINANCIAL TIMES Tuesday June 22 1993

AMERICA

Uncertainties obliterate early equity gains

Wall Street

After posting early gains on a technical rebound from last Friday's futures and options-related losses, US share prices eased back from their highs amid continued uncertainty over the outlook for the economy and equities, *writes Patrick Harverson in New York.*

At 1 pm, the Dow Jones Industrial Average was 2.76 ahead at 3,497.53. The more broadly based Standard & Poor's 500 was 1.22 higher at 444.90, while the Amex composite was down 1.36 at 435.46, and the Nasdaq composite down 2.03 at 687.56. Trading volume on the NYSE was 119m shares by 1 pm, and rises outnumbered declines by 968 to 795.

Last week ended with a steep loss on the Dow, incurred because of selling linked to the monthly expiration of stock and stock index futures and options, an event known as "triple-witching". Consequently, prices bounced back sharply at the opening yesterday in the traditional post-triple-witching rally, with the Dow gaining 16 points in the first few minutes of trading.

Stocks, however, were unable to hold on to those gains, and by early afternoon prices were either unchanged on the day or, in the case of secondary issues, firmly in negative territory. Uncertainty over the economic outlook, and the immediate future for stocks, was behind the markets' poor performance, although the Dow was especially hard hit by a decline in Caterpillar shares following a profits warning from the big industrial company.

Even a solid rise in bond prices – the benchmark 30-year bond was up almost half a point, and the yield down to 6.76 per cent – failed to stimulate much interest in equities. Some analysts believe that the markets may have already settled into a narrow trading pattern for the summer, and a prolonged period of relatively subdued activity.

Among individual stocks, Caterpillar stood out, falling more than $5 to $72 in hectic midday trading after the company warned that its non-US business was weakening. Later in the session, however, the price rallied slightly, and by early afternoon the shares were at $73⅞, registering a fall of $3⅝.

Tambrands jumped $5⅞ to $45⅝ in heavy trading on reports that the board is considering selling the company which, at the start of trading yesterday, had a market value of about $1.6bn. One of the companies named as a possible buyer, Johnson & Johnson, saw its shares slide $⅛ to $42⅝.

Nike plunged $8⅞ to $58⅞ as investors got the first real chance to react to Friday's news, announced after the market had closed, that the sportswear maker expects its earnings for the year ending in May 1994 to fall significantly short of market expectations. The warning led to a series of ratings downgrades by Wall Street brokers, further pummelling the share price. Reebok, Nike's main rival in the competitive sportshoe market, fell $1 to $28⅞ in sympathy.

Canada

TORONTO was mixed in quiet midday dealings, but paper and forestry issues gave the market some interest as the TSE 300 composite index edged up by 2.94 to 3,909.88 in turnover of C$233.96m.

SOUTH AFRICA

GOLD benefited from a weak commercial rand which offered a windfall to mines, while a softer financial rand gave an incentive to foreign buyers. Golds rose 57 to 1,750, industrials 3 to 4,659 and the overall index 29 to 4,011.

ASIA PACIFIC

Political uncertainty leaves Nikkei 3% weaker

Tokyo

POLITICAL uncertainty left share prices down 3 per cent and at their lowest level for four months, as reformists in the ruling Liberal Democratic party poised themselves to launch their own political groups, *writes Emiko Terazono in Tokyo.*

The Nikkei average lost 592.11, the largest day's fall of the year, at 19,212.43. The index opened at the day's best of 19,742.40 and dropped to a low of 19,039.55 in afternoon trading on selling by foreign institutions and individuals.

Volume totalled 340m shares, against Friday's 253m. Mr Yasuo Ueki at Nikko Securities said that apart from squaring of positions by short-term traders, most investors remained on the sidelines. "People are not sure what to do," he added.

Losers overwhelmed gainers by 1,044 to 52, with 81 issues unchanged. The Topix index of all first section stocks declined for the sixth consecutive day, shedding 56.04 to 1,531.25, but in London the ISE/Nikkei 50 index edged up 0.61 to 1,174.62.

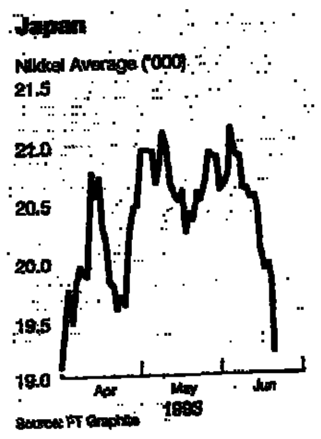
Bonds and the yen were also weaker. The dollar closed Y3.08 higher at Y110.48, while the No 145 10-year benchmark bond fell 0.38 to 106.91. Mr Souichi Enkyo, an economist at Bank of Tokyo, said the risks of holding the yen would increase sharply until the Tokyo summit at the beginning of next month.

NTT, the benchmark for market sentiment, plunged Y79,000 to Y831,000. Margin traders, who faced additional margin requirements as the share price declined, were seen liquidating holdings.

Receding hopes of credit easing due to the weaker dollar pushed down large-capital shares and financials. Nippon Steel fell Y18 to Y362 while Industrial Bank of Japan lost Y70 to Y2,660.

Brokerage issues were the hardest hit, the sector falling 6.7 per cent. Nomura Securities lost Y90 to Y1,930 and Nikko Securities Y80 to Y960.

Some consumer electronics shares posted gains thanks to the dollar's strength. Sony put on Y50 at Y4,410 and TDK Y10 at Y3,750. However, heavy electricals weakened on profit-taking, Hitachi retreating Y33 to Y794 and Toshiba Y8 to Y688.



In Osaka, the OSE average plunged 786.55 to 21,187.54 in volume of 20.7m shares.

Roundup

A NUMBER of Pacific Rim markets took a lead from Tokyo. Jakarta and Kuala Lumpur were closed for public holidays.

HONG KONG slid by 2.7 per cent as the Sino-British Joint Liaison Group ended a first day of talks on the colony's future with no comment on progress. The Hang Seng index closed at the day's low, down 197.17 at 7,003.58.

Cheung Kong and its affiliate, Hutchison, met the strongest selling pressure, falling 80 cents and 70 cents to HK$26.80 and HK$20.50 respectively.

Semi-Tech added 40 cents at HK$16 in spite of last Friday's announcement that it will pay $93m to settle a legal dispute.

AUSTRALIA's All Ordinaries index edged down 3.8 to 1,726.6 in a turnover of A$183.5m.

Against the trend, News Corp rose afresh by 10 cents to A$7.60 on reports that it will be a shareholder in the float of the Seven Network.

Advance Bank closed 4 cents lower at A$8.05 after rumours that it might buy State Bank of New South Wales. Commonwealth Bank firmed 3 cents to end at A$8.43.

TAIWAN finished lower across the board and the weighted index shed 40.53 to 4,074.37 in thin turnover of T$13.8bn.

Financial stocks were among the hardest hit, with Cathay Insurance down T$3 to T$156 and First Commercial Bank losing T$2.50 to T$142.

MANILA continued to consolidate, with much of the buying interest focused on new company issues. The composite index finished 3.95 softer at 1,573.91.

BOMBAY managed to erase much of an early sharp fall as state-owned financial institutions and mutual funds became buyers late in the day. The BSE index finished 7.80 down at 2,218.88.

The early decline was triggered by unsubstantiated rumours that Mr Harshad Mehta, the central figure in a Rs1.28bn securities scandal, would produce evidence to support his allegations that he paid Rs10m to Prime Minister P.V. Narasimha Rao.

KARACHI's pharmaceuticals rose on press reports of decontrol of medicine prices and financials gained on institutional buying, as the KSE index gained 20.27 at 1,225.89.

SEOUL gained ground in moderate trading, with buying focused on shares with low price-earnings ratios, financials and vehicle issues. The composite index closed 5.86 stronger at 796.06.

COLOMBO saw demand for banks as the CSE all-share index moved forward 19.75 to 615.32 in a turnover of Rs63m. National Development Bank forged ahead Rs22.75 to Rs172.

EUROPE

Interest rate manoeuvres lift Paris and Amsterdam

INTEREST rate cuts lifted Paris and Amsterdam yesterday and, coming towards the close in Belgium, they are expected to do the same for Brussels today, *writes Our Markets Staff.*

PARIS got its ninth interest rate cut since mid-April and the CAC-40 index rose 18.88 to 1,929.17. In spite of some caution ahead of annual meetings due this week, dealers felt that most bad company news was already in share prices.

Volume was FFr2.94bn. Elf Aquitaine rose FFr10.50, or 2.8 per cent to FFr385.40 after losses last week. Peugeot, with a shareholders' meeting coming up this week, was also among the biggest winners with a gain of 2.5 per cent as it rose FFr13 to FFr530.

Other big wins included Crédit Local de France, up FFr9 to FFr416. Rhône Poulenc A shares fell, by a token FFr1 to FFr537, although the company said that it would sell its 35 per cent stake in Roussel Uclaf, its associated pharmaceutical company, for about FFr4.5bn. Roussel itself was suspended at FFr575.

AMSTERDAM picked up as the day progressed in response to lower interest rates and the firm dollar and the CBS Tendency index added 0.9 to 110.1.

A 10-basis point cut to 6.90 per cent in the Dutch special advances rate came as little surprise to the market but was seen as opening the way for a broader easing of official bank lending rates.

Royal Dutch hit a 12-month closing high of Fl 175.90, up 20 cents, as early US demand triggered more widespread buying. Currency considerations helped Unilever Fl 3 higher to Fl 201.50 and Philips by 50 cents to Fl 28.10.

FRANKFURT ended the official session only slightly higher, the DAX index closing 2.92 higher at 1,689.82 but, said Mr Eckhard Frahm at Merck Finck in Düsseldorf, it put on another 8 points in the post bourse.

The post bourse saw the publication of a German M3 growth figure of 6.7 per cent for May after a revised 7 per cent for April. Analysts felt that the figure, at least, was moving in the right direction.

However, there were other features on the day. The strength of the dollar brought improvement to the cyclicals, BMW and Volkswagen rising DM6 to DM495, and DM5.40 to DM348 in carmakers and BASF by DM2.60 to DM237.80 in chemicals.

In Bonn, the economics minister Mr Günter Rexrodt, said that Germany's corporate tax structure could be reformed without a reduction in tax write-off allowances, opening the way for a compromise on the government's tax reform plans.

In Munich, Mr Edmund Stoiber, the new premier of Bavaria, said that he wants to push through the privatisation of state holdings, including that in the 58 per cent owned energy group Bayernwerk, as soon as possible. Viag, linked with Bayernwerk through cross-shareholdings, rose DM2.50 to DM362.50.

MILAN continued in volatile mood, again taking its lead from renewed falls for Ferruzzi and Montedison.

The Comit index shed 2.27 to 525.70, but Ferruzzi fell L60.40 or 9 per cent to L601.0 and Montedison dipped L45 to fix at L894, before L865 after hours. Investors reacted sceptically to the appointments of Mr Guido Rossi as chairman of the two companies, and Mr Enrico Bondi as chief executive. There was also a doubt that the recovery in their share prices at the end of last week had been overdone. The renewed weakness spilled over into creditor banks. Credito Italiano fell L101 or 3.7 per cent to L2,597; BCI lost L174 or 3.3 per cent to L4,965.

The re-emergence of market rumours that Fiat planned an international alliance or major asset sale took the shares L212 ahead to fix at a day's high of L6,190 before they eased back to L6,100 on the kerb.

ZURICH took advantage of the strong dollar and shares ended at an all-time high. The SMI index rose 11.5 to 2,329.5.

Nestlé reversed early small losses to add SFr7 to SFr1,130 while Roche certificates rose SFr85 to SFr4,900.

VIENNA's ATX index rose 9.1 to 848.09 in heavy trading, driven higher by strong gains in Creditanstalt preferred on rumours that the bank would publish improved first half results. Creditanstalt preferred gained Sch25 to Sch594, and were quoted higher still in the post-bourse.

ISTANBUL closed at its eighth record high this month as the market index soared 679.8 or 8.5 per cent to 11,140.4.

The continued optimism followed expectations that talks between the True Path Party and the Social Democrat Populist Party to establish a new coalition government could soon be finalised.

The market also welcomed weekend press reports that the prime minister-designate, Mrs Tansu Çiller, would insist on strict enforcement of economic measures, including rapid privatisation, to revitalise the economy.

FT-SE Actuaries Share Indices

June 21								THE EUROPEAN SERIES
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1183.76	1185.59	1187.32	1193.16	1190.87	1191.35	1193.29	1193.21
FT-SE Eurotrack 200	1239.35	1241.73	1242.21	1245.33	1247.89	1247.23	1248.45	1250.44

	Jun 18	Jun 17	Jun 16	Jun 15	Jun 14
FT-SE Eurotrack 100	1186.72	1182.69	1181.17	1173.17	1181.59
FT-SE Eurotrack 200	1242.58	1238.06	1236.97	1229.88	1234.83

Base value 1000 (26/10/90) High/day: 100 - 1193.82; 200 - 1251.07 Low/day: 100 - 1183.76 200 - 1238.35

Japanese equities lead the world lower

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1993	Start of 1993	Start of 1993
Austria	+1.06	+4.80	-10.12	+7.57	+5.22	+3.97
Belgium	+2.48	+1.29	+8.37	+11.74	+8.99	+7.69
Denmark	+2.40	+0.35	-2.25	+18.06	+16.60	+15.22
Finland	-0.71	-10.78	+51.30	+35.34	+27.36	+25.86
France	-0.42	+3.28	+1.50	+4.97	+3.98	+2.73
Germany	+0.08	+3.83	-5.73	+9.53	+6.86	+5.59
Ireland	+0.28	+3.21	+17.97	+30.79	+18.71	+17.30
Italy	+0.03	-4.51	+22.83	+25.99	+23.28	+21.82
Netherlands	+1.29	+4.38	+10.43	+13.48	+10.93	+9.62
Norway	+2.85	-0.72	-1.12	+13.16	+11.82	+10.49
Spain	+2.75	+4.09	+9.69	+24.46	+12.51	+11.17
Sweden	+0.52	-1.51	+19.24	+10.57	+5.00	+3.74
Switzerland	+0.39	+4.01	+23.03	+13.36	+12.05	+10.72
UK	+0.53	+2.34	+13.86	+2.77	+2.77	+1.55
EUROPE	+0.52	+2.36	+9.41	+8.19	+6.58	+5.32
Australia	+0.82	+2.42	+2.50	+9.24	+8.75	+7.45
Hong Kong	-1.13	+0.77	+19.44	+31.95	+33.64	+32.05
Japan	-4.11	-1.69	+29.08	+19.80	+38.49	+36.85
Malaysia	-2.39	+0.39	+44.66	+27.36	+31.18	+29.62
New Zealand	+0.40	+0.69	+7.10	+8.60	+15.86	+14.48
Singapore	-1.41	+0.47	+12.41	+17.27	+20.10	+18.68
Canada	+1.22	+0.90	+9.97	+11.82	+12.85	+11.51
USA	-0.79	-0.59	+10.94	+1.73	+2.96	+1.73
Mexico	+3.15	-1.52	+5.49	-9.55	-8.34	-9.43
South Africa	+0.77	-0.99	+7.76	+26.44	+33.89	+32.29
WORLD INDEX	-1.49	-0.19	+14.86	+9.20	+13.97	+12.62

† Based on June 18th 1993.

By William Cochrane

Japanese equities led the world lower last week, a 4.1 per cent drop in Tokyo leaving the FT-Actuaries World Index 1.5 per cent down in local currency terms.

The fall was worse in terms of the dollar, at 7.0 per cent, as political and economic worries mounted and the yen, too, reversed its recent strength. However, this decline still left the market with a gain of 36.8 per cent in dollar terms this year, compared with a 19.8 per cent rise via the yen.

Last week's mounting political crisis in Japan culminated after hours on Friday when Mr Kiichi Miyazawa, the prime minister, was forced to dissolve the lower house of the Japanese parliament and call a snap general election after his humiliation in a no-confidence vote.

Yesterday's further falls, however, also reflected more broadly based bearishness. On Thursday, Mr Nicholas Knight and his strategy team at Nomura in London, who called the upturn in the market last year, reduced the Tokyo market to underweight.

The Nomura team are increasingly concerned that Tokyo has already entered its second consolidation phase. "This," they say, "could last the remainder of the year and see the Nikkei back below 18,000." The Nikkei's high this year was 21,076.00, less than three weeks ago.

Mr Knight says that the yen has been much stronger than his team originally anticipated, hitting exports, and with no offsetting cut in the discount rate; long bond yields have risen substantially; and, finally, he has been converted to the cause of the US equity market, forecasting that the Dow will break significantly above 4,000 later this year, compared with last Friday's 3,494.77.

In Europe, Spain performed well. In decline a week earlier, following the Socialist election victory, Madrid took heart at the prospect of stable government and at last Friday's hints of another cut in interest rates.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	FRIDAY JUNE 18 1993								THURSDAY JUNE 17 1993					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1993 High	1993 Low	Year ago (approx)
Australia (68)	134.44	+0.1	133.24	92.89	117.43	132.18	+0.0	3.79	134.25	131.33	90.50	115.55	132.24	144.19	117.39	147.02
Austria (18)	145.73	+0.0	144.42	100.69	127.28	126.28	+0.7	1.55	145.67	142.51	98.21	125.38	125.39	150.96	131.16	171.71
Belgium (42)	143.47	-1.0	142.19	99.12	125.31	122.07	+0.4	4.69	144.86	141.71	97.65	124.68	121.64	156.76	131.19	141.75
Canada (108)	128.95	+0.3	127.79	89.09	112.62	119.05	+0.2	2.83	128.51	125.72	86.63	110.60	118.84	129.97	111.41	124.40
Denmark (33)	214.44	-1.0	212.52	148.16	187.30	187.53	+0.6	1.20	216.54	211.83	145.98	186.37	186.42	225.64	185.11	233.21
Finland (23)	87.61	-2.3	86.82	60.53	76.52	103.41	-1.3	1.16	89.71	87.76	60.48	77.22	104.80	100.92	65.50	75.96
France (97)	151.20	-1.0	149.85	104.46	132.05	133.89	+0.4	3.37	152.71	149.40	102.95	131.43	133.31	167.36	142.72	160.68
Germany (62)	109.86	-1.8	108.87	75.91	95.95	95.95	-0.3	2.21	111.85	109.43	75.42	96.27	96.27	117.10	101.59	124.89
Hong Kong (55)	292.57	+0.0	289.95	202.14	255.55	290.56	+0.1	3.24	292.45	286.10	197.16	251.72	290.41	301.61	218.82	244.41
Ireland (15)	159.27	-0.9	157.84	110.04	139.11	154.18	+0.5	3.50	160.65	157.16	108.30	138.27	153.42	170.40	129.28	159.31
Italy (73)	66.84	+0.1	66.24	46.17	58.37	76.07	+1.4	2.05	66.74	65.29	44.99	57.44	74.99	72.82	53.78	69.50
Japan (470)	143.73	-2.9	142.44	99.30	125.55	99.30	-0.5	0.84	147.97	144.75	99.75	127.37	99.75	155.96	100.75	97.66
Malaysia (69)	338.91	+1.4	335.87	234.15	296.01	335.45	+1.5	2.01	334.13	326.87	225.24	287.57	330.46	349.34	251.66	239.73
Mexico (18)	1492.49	+1.7	1479.11	1031.16	1303.58	5084.71	+1.7	1.33	1467.64	1435.77	989.41	1263.19	5001.67	1725.81	1410.30	1446.03
Netherland (24)	165.96	-0.9	164.47	114.66	144.96	142.63	+0.5	3.86	167.52	163.88	112.93	144.19	141.95	172.75	150.39	160.60
New Zealand (13)	49.10	-0.2	48.66	33.93	42.89	48.12	+0.1	4.62	49.19	48.12	33.16	42.34	48.10	49.82	40.56	46.65
Norway (22)	152.15	-1.7	150.79	105.12	132.89	146.32	-0.3	1.80	154.74	151.38	104.32	133.19	146.76	166.21	137.71	176.50
Singapore (38)	253.21	+1.4	250.94	174.94	221.16	189.15	+1.7	1.82	249.78	244.35	168.39	214.98	186.01	262.72	207.04	223.50
South Africa (60)	195.92	+0.6	194.17	135.36	171.12	198.70	+0.2	2.54	194.82	190.59	131.34	167.68	198.33	201.01	144.72	235.49
Spain (48)	129.63	+0.4	128.47	89.57	113.22	125.95	+1.6	4.70	129.15	126.34	87.07	111.16	123.91	132.82	115.23	155.77
Sweden (36)	171.76	-1.0	170.22	118.67	150.03	191.66	+0.1	1.76	173.52	169.75	116.98	149.35	191.50	184.06	149.70	191.66
Switzerland (52)	125.12	-1.6	124.00	86.45	109.30	116.39	-0.1	1.87	127.09	124.33	85.69	109.40	116.50	129.36	106.91	108.22
United Kingdom (219)	175.03	-1.1	173.46	120.92	152.86	173.46	+0.1	4.00	177.06	173.22	119.36	152.38	173.22	181.99	162.00	192.78
USA (519)	181.19	-1.1	179.56	125.19	158.26	181.19	-1.1	2.82	183.15	179.17	123.46	157.64	183.15	186.27	175.38	164.51
Europe (762)	143.24	-1.1	141.96	98.97	125.12	135.08	+0.2	3.29	144.84	141.69	97.65	124.67	134.75	149.02	133.92	153.12
Nordic (114)	161.16	-1.2	159.71	111.34	140.76	158.83	+0.0	1.57	163.09	159.54	109.94	140.37	158.77	171.77	142.13	176.42
Pacific Basin (713)	147.88	-2.5	146.55	102.17	129.16	106.03	-0.4	1.11	151.64	148.35	102.23	130.52	106.41	159.07	105.89	104.36
Euro-Pacific (1475)	145.87	-1.9	144.56	100.77	127.40	118.19	-0.1	1.99	148.74	145.51	100.27	128.01	118.33	154.05	117.26	124.07
North America (627)	177.92	-1.0	176.33	122.94	155.43	178.65	-1.0	2.83	179.74	175.84	121.19	154.73	178.77	182.38	171.51	161.99
Europe Ex. UK (543)	123.61	-1.1	122.50	85.42	107.99	113.37	+0.3	2.80	124.95	122.24	84.25	107.57	113.02	128.65	112.51	129.40
Pacific Ex. Japan (243)	188.94	+0.4	187.24	130.56	165.04	174.75	+0.4	3.15	188.20	184.12	126.90	162.00	174.08	194.08	152.70	170.22
World Ex. US (1661)	146.62	-1.8	145.30	101.31	128.06	120.39	-0.1	2.02	149.31	146.07	100.67	128.52	120.44	154.27	118.51	126.14
World Ex. UK (1961)	155.49	-1.6	154.10	107.44	135.83	135.71	-0.5	2.15	157.96	154.53	106.50	135.97	136.44	161.34	134.22	132.98
World Ex. So. Af. (2120)	157.06	-1.5	155.65	108.52	137.19	138.64	-0.5	2.33	159.52	156.05	107.55	137.31	139.29	162.74	137.29	137.49
World Ex. Japan (1710)	166.20	-0.9	164.71	114.84	145.19	161.48	-0.5	2.99	167.74	164.10	113.09	144.40	162.25	170.05	157.47	160.72
The World Index (2180)	157.22	-1.5	155.81	108.63	137.33	139.14	-0.5	2.33	159.65	156.19	107.63	137.42	138.80	162.86	137.32	138.13

Constituent deletion with effect from 22/6/93: Ciga (Italy). Latest prices were unavailable for this edition.